

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 1-31447

CENTERPOINT ENERGY, INC.

(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

74-0694415
(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)

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, CenterPoint Energy, Inc. had 305,773,503 shares of common
stock outstanding, including 838,177 ESOP shares not deemed outstanding for
financial statement purposes and excluding 166 shares held as treasury stock.

CENTERPOINT ENERGY, INC.
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:

- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, as amended (1935 Act), changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
 - recovery of stranded costs;
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- non-payment for our services due to financial distress of our

customers, including Reliant Resources, Inc. (Reliant Resources);

- 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;
- 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;
- commercial bank and financial market conditions, our access to capital, the cost 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;
- actions by rating agencies;
- legal and administrative proceedings and settlements;
- changes in tax laws;

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- 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 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;
- the outcome of the pending lawsuits against us, Reliant Energy, Incorporated and Reliant Resources;
- the ability of Reliant Resources to satisfy its indemnity obligations to us;
- the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in our service territory, including the systems owned and operated by the independent system operator in the market served by the Electric Reliability Council of Texas, Inc.;
- political, legal, regulatory and economic conditions and developments in the United States; and
- other factors we discuss in this report including those outlined in Item 5 of 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	-----	-----	-----	-----
REVENUES	\$ 1,798,424	\$ 2,090,900	\$ 3,875,814	\$ 4,991,068
EXPENSES:				
Fuel and cost of gas sold	862,058	1,080,857	1,904,620	2,940,003
Purchased power	4,258	22,974	52,624	34,968
Operation and maintenance	372,505	393,085	760,467	805,961
Depreciation and amortization	151,072	157,263	299,481	309,544
Taxes other than income taxes	119,134	90,691	217,285	193,535
Total	1,509,027	1,744,870	3,234,477	4,284,011
OPERATING INCOME	289,397	346,030	641,337	707,057
OTHER INCOME (EXPENSE):				
Gain (loss) on AOL Time Warner investment	(230,214)	113,178	(447,811)	64,704
Gain (loss) on indexed debt securities	218,723	(98,253)	421,956	(55,550)
Interest expense	(139,847)	(215,087)	(257,599)	(439,081)
Distribution on trust preferred securities	(13,850)	(13,899)	(27,749)	(27,797)
Other, net	7,664	1,629	14,788	4,788
Total	(157,524)	(212,432)	(296,415)	(452,936)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	131,873	133,598	344,922	254,121
Income Tax Expense	(45,744)	(44,346)	(113,914)	(85,455)
Minority Interest	(7)	(6,295)	4	(4,229)
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	86,122	82,957	231,012	164,437
Discontinued Operations:				
Income from Reliant Resources, net of tax	147,849	--	34,450	--
Income (loss) from Other Operations, net of tax	1,674	(403)	1,788	(865)
Loss on disposal of Other Operations, net of tax	--	(19,331)	--	(11,989)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	80,072
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 235,645	\$ 63,223	\$ 267,250	\$ 231,655
BASIC EARNINGS PER SHARE:				
Income from Continuing Operations before Cumulative Effect of Accounting Change	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.49	--	0.11	--
Income (loss) from Other Operations, net of tax	0.01	--	0.01	--
Loss on disposal of Other Operations, net of tax	--	(0.06)	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.27
Net Income Attributable to Common Shareholders	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.77
DILUTED EARNINGS PER SHARE:				
Income from Continuing Operations before Cumulative Effect of Accounting Change	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.49	--	0.11	--
Income (loss) from Other Operations, net of tax	0.01	--	0.01	--
Loss on disposal of Other Operations, net of tax	--	(0.06)	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.26
Net Income Attributable to Common Shareholders	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.76

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS	DECEMBER 31,		JUNE 30,	
	2002		2003	
	-----	-----	-----	-----
CURRENT ASSETS:				
Cash and cash equivalents	\$ 304,281		\$ 50,164	
Investment in AOL Time Warner common stock ...	283,486		348,190	
Accounts receivable, net	558,328		659,134	
Accrued unbilled revenues	354,497		220,311	
Fuel stock and petroleum products	166,742		185,207	

Materials and supplies	185,074	182,151
Non-trading derivative assets	27,275	21,953
Taxes receivable	72,027	102,968
Current assets of discontinued operations	12,505	5,113
Prepaid expenses and other current assets	71,138	55,970
	-----	-----
Total current assets	2,035,353	1,831,161
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	19,852,729	19,757,347
Less accumulated depreciation and amortization	(8,487,612)	(8,617,144)
	-----	-----
Property, plant and equipment, net	11,365,117	11,140,203
	-----	-----
OTHER ASSETS:		
Goodwill, net	1,740,510	1,740,510
Other intangibles, net	65,880	65,943
Regulatory assets	4,000,646	4,537,864
Non-trading derivative assets	3,866	14,352
Non-current assets of discontinued operations	50,272	22,103
Other	444,860	537,339
	-----	-----
Total other assets	6,306,034	6,918,111
	-----	-----
TOTAL ASSETS	\$ 19,706,504	\$ 19,889,475
	=====	=====

See Notes to the Company's Interim Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	DECEMBER 31, 2002	JUNE 30, 2003
	-----	-----
CURRENT LIABILITIES:		
Short-term borrowings	\$ 347,000	\$ --
Current portion of long-term debt	810,325	295,541
Indexed debt securities derivative	224,881	280,430
Accounts payable	621,528	558,730
Taxes accrued	192,570	126,395
Interest accrued	197,274	171,690
Non-trading derivative liabilities	26,387	12,697
Regulatory liabilities	168,173	176,554
Accumulated deferred income taxes, net	285,214	290,940
Deferred revenues	48,940	95,638
Current liabilities of discontinued operations	2,856	--
Other	286,005	235,449
	-----	-----
Total current liabilities	3,211,153	2,244,064
	-----	-----
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,445,133	2,664,677
Unamortized investment tax credits	230,037	221,352
Non-trading derivative liabilities	873	2,873
Benefit obligations	832,152	873,880
Regulatory liabilities	959,421	730,246
Non-current liabilities of discontinued operations	6,912	--
Other	698,121	739,697
	-----	-----
Total other liabilities	5,172,649	5,232,725
	-----	-----
LONG-TERM DEBT	9,194,320	10,085,949
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	292	169,622
	-----	-----
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	706,140	706,361
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock (300,101,587 shares and 304,643,167 shares outstanding at December 31, 2002 and June 30, 2003, respectively)	3,050	3,057
Additional paid-in capital	3,046,043	2,869,943
Unearned ESOP stock	(78,049)	(17,012)

Retained deficit	(1,062,083)	(929,129)
Accumulated other comprehensive loss	(487,011)	(476,105)
	-----	-----
Total shareholders' equity	1,421,950	1,450,754
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,706,504	\$ 19,889,475
	=====	=====

See Notes to the Company's Interim Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2002	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to common shareholders	\$ 267,250	\$ 231,655
Add: Loss (income) from discontinued operations, net of tax	(36,238)	865
Add: Loss on disposal of discontinued operations, net of tax	--	11,989
Less: Cumulative effect of accounting change, net of minority interest and tax	--	(80,072)
	-----	-----
Income from continuing operations before cumulative effect of accounting change	231,012	164,437
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	299,481	309,544
Fuel-related amortization	13,407	9,725
Deferred income taxes	90,290	196,208
Investment tax credits	(9,228)	(8,685)
Loss (gain) on AOL Time Warner investment	447,811	(64,704)
Loss (gain) on indexed debt securities	(421,956)	55,550
Minority interest	(4)	4,229
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues, net	(90,474)	33,721
Inventory	61,118	(15,542)
Taxes receivable	--	(30,941)
Accounts payable	(58,927)	(62,798)
Fuel cost over recovery	166,176	5
Net non-trading derivative assets and liabilities	(2,117)	(430)
Interest and taxes accrued	(124,672)	(51,692)
Net regulatory assets and liabilities	(408,926)	(355,795)
Other current assets	11,285	16,605
Other current liabilities	(88,460)	(34,433)
Other assets	(15,396)	34,961
Other liabilities	(53,878)	26,109
Other, net	36,170	17,535
	-----	-----
Net cash provided by operating activities	82,712	243,609
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(450,983)	(296,561)
Decrease (increase) in restricted cash	2,961	(1,437)
Other, net	23,105	(2,712)
	-----	-----
Net cash used in investing activities	(424,917)	(300,710)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	3,097	3,748,267
Increase (decrease) in short-term borrowing, net	891,424	(347,000)
Payments of long-term debt	(107,337)	(3,362,255)
Payment of common stock dividends	(222,538)	(61,043)
Payment of common stock dividends by subsidiary	--	(7,618)
Proceeds from issuance of common stock	6,803	4,504
Debt issuance costs	--	(185,760)
Other, net	176	270
	-----	-----
Net cash provided by (used in) financing activities	571,625	(210,635)
	-----	-----
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	8,312	13,619
	-----	-----

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	237,732	(254,117)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,608	304,281
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 255,340	\$ 50,164
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	\$ 250,659	\$ 316,679
Income taxes	78,058	4,311

See Notes to the Company's Interim Financial Statements

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CENTERPOINT ENERGY, INC. 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, Inc. (CenterPoint Energy), together with its subsidiaries (collectively, the Company), are the Company's consolidated interim financial statements and notes (Interim Financial Statements) including these companies' wholly owned and majority owned subsidiaries. The Company has filed a Current Report on Form 8-K dated May 12, 2003 (May 12 Form 8-K). The May 12 Form 8-K gives effect to certain reclassifications that have been made to the Company's historical financial statements as presented in the Annual Report on Form 10-K of CenterPoint Energy (CenterPoint Energy Form 10-K) for the year ended December 31, 2002. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the May 12 Form 8-K, including the exhibits thereto, and the Quarterly Report on Form 10-Q of CenterPoint Energy for the quarter ended March 31, 2003 (First Quarter 10-Q).

RESTRUCTURING

CenterPoint Energy is a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) that implemented certain requirements of the Texas electric restructuring law described below. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources), which, at the time, was a wholly owned subsidiary of Reliant Energy. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001 (the Reliant Resources Offering). In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following steps occurred on August 31, 2002 (the Restructuring):

- CenterPoint Energy became the holding company for the Reliant Energy group of companies;
- Reliant Energy and its subsidiaries became subsidiaries of CenterPoint Energy; and
- each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

On September 30, 2002, CenterPoint Energy distributed all of the shares of Reliant Resources common stock owned by CenterPoint Energy to its common shareholders on a pro rata basis (the Reliant Resources Distribution).

CenterPoint Energy is the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. The Company's operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, natural gas pipelines and electric generating plants. 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 the Company. 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.

As of June 30, 2003, the Company's indirect wholly owned subsidiaries

include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in Reliant Energy's former electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston; and
- CenterPoint Energy Resources Corp. (CERC Corp., and, together with its subsidiaries, CERC), which owns

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gas distribution systems that together form one of the United States' largest natural gas distribution operations in terms of number of customers served. Through wholly owned subsidiaries, CERC owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

CenterPoint Energy also has an approximately 81% ownership interest in Texas Genco Holdings, Inc. (Texas Genco), which owns and operates the Texas generating plants formerly belonging to the integrated electric utility that was a part of Reliant Energy. CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to CenterPoint Energy's shareholders on January 6, 2003. As a result of the distribution of Texas Genco common stock, CenterPoint Energy recorded an impairment charge of \$396 million, which is reflected as a regulatory asset representing stranded costs in the Consolidated Balance Sheets as of June 30, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of the Texas Genco common stock that was distributed. The financial impact of this impairment was offset by recording a \$396 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. See Note 4(c) for a discussion of generation related regulatory assets. Additionally, in connection with the distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of \$146 million in its Consolidated Balance Sheets in the first quarter of 2003.

BASIS OF PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted 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.

Subsequent to December 31, 2002, the Company sold all of its remaining Latin America operations. The Interim Financial Statements present these remaining Latin America operations as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

The Company is negotiating to sell a component of its Other Operations business segment that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. Accordingly, the Interim Financial Statements reflect these operations as discontinued operations.

The Interim Financial Statements have been prepared to reflect the effects of the Restructuring and the Reliant Resources Distribution as described above on the CenterPoint Energy financial statements. The Interim Financial Statements present the Reliant Resources businesses (previously reported as the Wholesale

Energy, European Energy, and Retail Energy business segments and related corporate costs) as discontinued operations, in accordance with SFAS No. 144.

The following notes to the consolidated annual financial statements included in Exhibit 99.2 to the May 12 Form 8-K (CenterPoint Energy Notes) relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

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CenterPoint Energy Notes: Note 3(d) (Long-Lived Assets and Intangibles), Note 3(e) (Regulatory Assets and Liabilities), Note 4 (Regulatory Matters), Note 5 (Derivative Instruments), Note 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities) and Note 13 (Commitments and Contingencies).

For information regarding certain legal, tax and regulatory proceedings and environmental matters, see Note 12.

(2) DISCONTINUED OPERATIONS

Latin America. In February 2003, the Company sold its interest in Argener, a cogeneration facility in Argentina, for \$23.1 million. The carrying value of this investment was approximately \$11 million as of December 31, 2002. The Company recorded an after-tax gain of \$7 million from the sale of Argener in the first quarter of 2003. In April 2003, the Company sold its final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de Santiago del Estero S.A. (Edese). The Company recorded an after-tax loss of \$3 million in the second quarter of 2003 related to its Latin American operations.

Revenues related to the Company's Latin America operations included in discontinued operations for the three months ended June 30, 2002 and 2003 were \$3.9 million and \$0.5 million, respectively. Income from these discontinued operations for the three months ended June 30, 2002 and 2003 is reported net of income tax expense (benefit) of \$(2.1) million and \$1.9 million, respectively. Revenues related to the Company's Latin America operations included in discontinued operations for the six months ended June 30, 2002 and 2003 were \$8.4 million and \$2.2 million, respectively. Income from these discontinued operations for the six months ended June 30, 2002 and 2003 is reported net of income tax expense of \$1.1 million and \$1.9 million, respectively.

CenterPoint Energy Management Services, Inc. As discussed in Note 1, the Company is negotiating to sell a component of its Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The Company recorded an after-tax loss in discontinued operations of \$16.2 million (\$25.0 million pre-tax) during the three months ended June 30, 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. Revenues related to CEMS included in discontinued operations for the three months ended June 30, 2002 and 2003 were \$2.2 million and \$2.6 million, respectively. Revenues related to CEMS included in discontinued operations for the six months ended June 30, 2002 and 2003 were \$4.0 million and \$4.7 million, respectively. Income from these discontinued operations for the three months ended June 30, 2002 and 2003 is reported net of income tax benefit of \$0.5 million and \$0.8 million, respectively. Income from these discontinued operations for the six months ended June 30, 2002 and 2003 is reported net of income tax benefit of \$0.9 million and \$1.7 million, respectively.

Reliant Resources. On September 30, 2002, CenterPoint Energy distributed to its shareholders its 83% ownership interest in Reliant Resources by means of a tax-free spin-off in the form of a dividend. Holders of CenterPoint Energy common stock on the record date received 0.788603 shares of Reliant Resources common stock for each share of CenterPoint Energy stock that they owned on the record date. The Reliant Resources Distribution was recorded in the third quarter of 2002.

Reliant Resources' revenues included in discontinued operations for the three months and six months ended June 30, 2002 were \$2.3 billion and \$4.1 billion, respectively, as reported in Reliant Resources' Annual Report on Form 10-K/A, Amendment No. 1, filed with the SEC on May 1, 2003. Income from these discontinued operations for the three months and six months ended June 30, 2002 is reported net of income tax expense of \$104 million and \$146 million, respectively. These amounts have been restated to reflect Reliant Resources' adoption of Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

(3) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted 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

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for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The Company has identified retirement obligations for nuclear decommissioning at the South Texas Project Electric Generating Station (South Texas Project) and for lignite mine operations at the Jewett mine supplying the Limestone electric generation facility. Prior to adoption of SFAS No. 143, the Company had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of \$139.7 million and \$39.7 million for reclamation of the lignite at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, the Company reversed the \$139.7 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of \$99.1 million offset by accumulated depreciation of \$35.8 million as well as a retirement obligation of \$186.7 million. The \$16.3 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability due to regulatory requirements. The Company also reversed the \$39.7 million it had previously recorded for the Jewett mine reclamation and recorded a plant asset of \$1.9 million offset by accumulated depreciation of \$0.4 million as well as a retirement obligation of \$3.8 million. The \$37.4 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. The Company has also identified other asset retirement obligations that cannot be estimated because the assets associated with the retirement obligations have an indeterminate life.

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the six months ended June 30, 2003:

	BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, JUNE 30, 2003
	-----	-----	-----	-----	-----	-----
	(IN MILLIONS)					
Nuclear decommissioning..	\$186.7	--	--	\$ 4.5	--	\$191.2
Jewett lignite mine	3.8	--	--	0.2	--	4.0
	-----	-----	-----	-----	-----	-----
	\$190.5	--	--	\$ 4.7	--	\$195.2
	=====	=====	=====	=====	=====	=====

The following represents the pro-forma effect on the Company's net income for the three months and six months ended June 30, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002:

	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2002
	-----	-----
	(IN THOUSANDS)	
Income from continuing operations before cumulative effect of accounting change as reported	\$ 86,122	\$ 231,012
Pro-forma income from continuing operations before cumulative effect of accounting change	86,102	230,972
Net income as reported	235,645	267,250
Pro-forma net income	235,625	267,210
DILUTED EARNINGS PER SHARE:		
Income from continuing operations before cumulative effect of accounting change as reported	\$ 0.29	\$ 0.78
Pro-forma income from continuing operations before cumulative effect of accounting change	0.29	0.78
Net income as reported	0.79	0.90

The following represents the Company's asset retirement obligations on a pro-forma basis as if it had adopted SFAS No. 143 as of December 31, 2002:

	AS REPORTED	PRO-FORMA
	(IN MILLIONS)	
Nuclear decommissioning.....	\$ 139.7	\$ 186.7
Jewett lignite mine.....	39.7	3.8
Total.....	\$ 179.4	\$ 190.5

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 \$644 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. The Company's non-rate regulated businesses have also previously recognized removal costs as a component of depreciation expense. The Company reversed \$115 million during the three months ended March 31, 2003 of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was \$152 million. Excluded from the \$80 million after-tax cumulative effect of accounting change recorded for the three months ended March 31, 2003, is minority interest of \$19 million related to the Texas Genco stock not owned by CenterPoint Energy.

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 provision 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. The Company has reclassified the \$26 million loss on debt extinguishment related to the fourth quarter of 2002 from an extraordinary item to interest expense.

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 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

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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 has added additional criteria which were effective on July 1, 2003 for new, acquired, or newly modified forward contracts. The Company engages in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state mandated Public Utility Commission of Texas (Texas Utility Commission) auctions or auctions mandated by an agreement with Reliant Resources. All of the Company's contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived, the delivery location and specific delivery requirements, and pricing for each of the products. The Company has applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 - "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state mandated and the contractually mandated auction contracts and believes they meet the definition of capacity contracts. Accordingly, the Company considers these contracts as normal sales contracts rather than as derivatives. The Company has evaluated its forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 will not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state mandated or contractually mandated auctions, and will not have a material effect on the Company's 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.

(4) REGULATORY MATTERS

(a) Excess Cost Over Market (ECOM) True-Up.

Texas Genco sells, through auctions, entitlements to substantially all of its installed electric generation capacity, excluding reserves for planned and forced outages. From September 2001 through July 2003, it conducted auctions as required by the Texas Utility Commission and by the Company's master separation agreement with Reliant Resources.

The capacity auctions continue to be consummated at market-based prices that are substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. The Texas electric restructuring law allows recovery, in a "true-up" proceeding in 2004 (2004 True-Up Proceeding), of the difference between the prices for power sold in state mandated auctions and earlier estimates of market power prices by the Texas Utility Commission. This calculation (the ECOM Calculation) calculates the difference between (1) an imputed margin that reflects the actual market power prices received in the

state mandated auctions, actual fuel expense and generation, and (2) the margin included in the Texas Utility Commission's estimates of power prices, fuel expense and generation in the ECOM model developed by the Texas Utility Commission (the ECOM Margin). The difference is the ECOM True-Up amount.

The ECOM model from which the ECOM Margin is derived provides only annual estimates of power prices, fuel expense and generation. Accordingly, the Company must form its own quarterly allocation estimates during 2002-2003 for the purpose of determining ECOM True-Up revenue.

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Beginning January 1, 2002, the Company allocated the ECOM Margin in the Company's ECOM Calculation based on annual estimated forecasts of power prices, fuel expense and generation. In the second quarter of 2003, the Company began using a cumulative methodology for allocating ECOM Margin. This methodology uses revenue amounts based on the actual state mandated auction price results and actual generation for historical periods, as well as forecasted amounts for the balance of 2003, rather than forecasted amounts for the two-year period allocated on an annual basis. Changes in estimates that affect the allocation of ECOM Margin will have an effect on the amount of ECOM True-Up revenue recorded in a specific period, but will not affect the total amount of ECOM True-Up revenue recorded during the two-year period ending December 31, 2003.

In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the three months ended June 30, 2002 and 2003, CenterPoint Energy recorded approximately \$170 million and \$101 million, respectively, in non-cash revenue related to the right to subsequent cost recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the six months ended June 30, 2002 and 2003, CenterPoint Energy recorded approximately \$311 million and \$233 million, respectively, in non-cash revenue related to the right to subsequent cost recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. For additional information regarding the capacity auctions and the related true-up proceeding, please read Notes 3(e) and 4(a) to the CenterPoint Energy Notes, which are incorporated herein by reference.

(b) Generation Asset Impairment Contingency.

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144. As of June 30, 2003, no impairment had been indicated in its Texas generation assets. The Company anticipates that future events, such as changes in the market value of the Texas Genco stock, a change in the estimated holding period of the Texas generation assets, or a change in market demand for electricity, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and may not be fully recoverable through the 2004 True-Up Proceeding.

The Texas electric restructuring law provides for the Company to recover the regulatory book value of its Texas generating assets (as defined in the Texas electric restructuring law) to the extent the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset, will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of June 30, 2003, the recorded book value was \$491 million in excess of the regulatory book value. This amount declines as the recorded book value is depreciated and increases by the amount of capital expenditures incurred, excluding certain environmental capital expenditures allowable prior to May 1, 2003. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4(a) to the CenterPoint Energy Notes.

(c) Regulatory Assets Contingency.

As of June 30, 2003, in contemplation of the 2004 True-Up Proceeding, CenterPoint Houston has recorded a regulatory asset of \$2.5 billion representing the estimated future recovery of previously incurred costs. This estimated recovery is based upon current projections of the market value of the Company's Texas generation assets to be covered by the 2004 True-Up Proceeding calculations. This estimated recovery amount includes:

- \$1.1 billion of previously recorded accelerated depreciation (an amount equal to earnings above a stated overall annual rate of return on invested capital that was used to recover the Company's investment in generation assets);

- \$841 million of redirected depreciation; and
- \$396 million related to the Texas Genco distribution as discussed in Note 1.

Offsetting this regulatory asset is an \$880 million regulatory liability relating to an order issued by the Texas Utility Commission in 2001 to refund amounts relating to prior mitigation of anticipated stranded costs. The Texas Utility Commission ruled that those amounts should be refunded based on its conclusion that those amounts would result in an over-mitigation of stranded costs unless they were refunded. CenterPoint Houston began refunding those amounts (excess mitigation credits) with January 2002 bills and is scheduled to continue to refund those credits over a seven-

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year period.

Because GAAP requires CenterPoint Houston to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs in the 2004 True-Up Proceeding are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation-related regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

On June 26, 2003, CenterPoint Houston filed a petition with the Texas Utility Commission seeking to cease refunding excess mitigation credits on the ground that continuation of that refund in light of current projections of stranded costs only increases the amount of stranded costs that CenterPoint Houston will seek to recover in the 2004 True-Up Proceeding. The excess mitigation credits amount to approximately \$19 million per month. This proceeding is currently pending before the Texas Utility Commission.

(d) Fuel Reconciliation Contingency.

CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission on July 1, 2002. This final fuel reconciliation filing covers reconcilable fuel revenue, fuel expense and interest of approximately \$8.5 billion incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of \$94 million, which was the balance at July 31, 1997 as approved in CenterPoint Houston's last fuel reconciliation. On March 3, 2003, a settlement agreement was filed under which certain items totaling \$24 million were written off during the fourth quarter of 2002 and items totaling \$203 million will be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004. A hearing is scheduled to begin in September 2003.

(e) 2004 True-Up Proceeding.

Under the Texas electric restructuring law, the Texas Utility Commission is required to conduct true-up proceedings for each investor-owned utility whose generation assets were "unbundled" from its transmission and distribution assets in order to quantify and reconcile the amount of stranded costs, ECOM True-Up, unreconciled fuel costs, "price to beat" clawback component (See Note 12(g)) and other regulatory assets associated with electric generation operations (true-up costs). On June 18, 2003, the Texas Utility Commission ruled that CenterPoint Houston's filing for recovery of its true-up costs will be made on March 31, 2004. CenterPoint Houston had requested, and the Texas Utility Commission had initially proposed, a filing date of January 12, 2004. The law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility.

Any delay in the final order date will result in a delay in the securitization of CenterPoint Houston's stranded costs and the start of recovery of certain carrying costs through non-bypassable charges to CenterPoint Houston's customers.

In addition, the delay in CenterPoint Houston's filing for recovery of its true-up costs means that the calculation of the market value per share of the Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination might be more or less than the purchase price per share calculated under the option held by Reliant Resources to purchase CenterPoint Energy's 81% ownership interest in Texas Genco. Under the option, the purchase price will be based on market prices during the 120 trading days ending on

January 9, 2004, but under the filing schedule prescribed by the Texas Utility Commission, the value of that ownership interest for the stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004. If Reliant Resources exercises its option at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

We expect that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will seek to securitize its stranded costs, any regulatory assets not previously securitized by the October 2001 issuance of transition bonds and, to the extent permitted by the Texas Utility Commission, the balance of the other true-up components. Under the Texas electric restructuring law, CenterPoint Houston is entitled to recover any portion of the true-up balance not securitized by transition bonds through a non-bypassable competition transition charge assessed to its customers.

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(f) CenterPoint Energy Entex Rate Increase Filing.

On June 13, 2003, CenterPoint Energy Entex (Entex) filed a rate increase request with the City of Houston which, if approved, would yield approximately \$17 million in additional annual revenue. The Company is seeking a return on common equity of 11.25% and an overall return of 8.87% on its rate base. The filing does not affect the rates under special contracts with certain industrial customers. The city has suspended the rate request until October 16, 2003. Upon resolution of its rate filing with the City of Houston, Entex will seek to implement new rates in adjacent cities and their surrounding areas. The Company expects that new rates will become effective in these jurisdictions in the fourth quarter of 2003 and first quarter of 2004.

(5) DERIVATIVE FINANCIAL 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 in 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, 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. 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 \$9.3 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

Interest Rate Swaps. As of June 30, 2003, the Company had outstanding interest rate swaps with an aggregate notional amount of \$750 million to fix the interest rate applicable to floating rate long-term debt. These swaps do not qualify as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income.

During 2002, the Company settled its forward-starting interest rate swaps having a notional amount of \$1.5 billion at a cost of \$156 million, which was recorded in other comprehensive income, and reclassified \$36 million to interest expense in 2002. The remaining \$120 million in other comprehensive income is being amortized into interest expense in the same period during which the interest payments are made for the designated fixed-rate debt. Amortization of amounts deferred in accumulated other comprehensive income for the three months ended June 30, 2003, was \$3.1 million and is expected to amount to \$11.9 million in 2003.

Embedded Derivative. The Company's \$575 million of convertible senior notes, issued May 19, 2003 (see Note 9), contain a contingent interest provision. The contingent interest component is an embedded derivative as defined by SFAS No. 133, and accordingly, must be split from the host instrument and recorded at fair value on the balance sheet. The value of the contingent interest component was not material at issuance or at June 30, 2003.

(6) 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
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The components of the Company's other intangible assets consist of the following:

	DECEMBER 31, 2002		JUNE 30, 2003	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Land use rights.....	\$ 61	\$ (12)	\$ 61	\$ (13)
Other.....	19	(2)	21	(3)
Total.....	\$ 80	\$ (14)	\$ 82	\$ (16)

The Company recognizes specifically identifiable intangibles, including land use rights and permits, when specific rights and contracts are acquired. 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 40 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 \$0.4 million and \$0.6 million, respectively. Amortization expense for other intangibles for the six months ended June 30, 2002 and 2003 was \$0.9 million and \$1.1 million, respectively. Estimated amortization expense for the remainder of 2003 and the five succeeding fiscal years is as follows (in millions):

2003.....	\$ 1.1
2004.....	2.4
2005.....	2.6
2006.....	2.8
2007.....	3.0
2008.....	3.3

Total.....	\$ 15.2
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(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Net income attributable to common shareholders.....	\$ 236	\$ 63	\$ 267	\$ 232
Other comprehensive income:				
Net deferred gain (loss) from cash flow hedges....	(60)	9	(12)	7
Reclassification of deferred loss (gain) from cash flow hedges realized in net income.....	(1)	2	2	3
Other comprehensive income from discontinued operations.....	107	--	232	1
Other comprehensive income.....	46	11	222	11
Comprehensive income	\$ 282	\$ 74	\$ 489	\$ 243

(8) CAPITAL STOCK

CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, comprised of 1,000,000,000 shares of \$0.01 par value common stock and 20,000,000 shares of \$0.01 par value preferred stock. At December 31, 2002, 305,017,330 shares of CenterPoint Energy common stock were issued and 300,101,587 shares of CenterPoint Energy common stock were outstanding. At June 30, 2003, 305,715,039 shares of CenterPoint Energy common stock were issued and 304,643,167 shares of CenterPoint Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to CenterPoint Energy's Employee Stock Ownership Plan (4,915,577 and 1,071,706 at December 31, 2002 and June 30, 2003, respectively) and (b) treasury shares (166 at both December 31, 2002 and June 30, 2003). Reliant Energy declared a dividend of \$0.375 per share in each of the first and second quarters of 2002 and CenterPoint Energy declared a dividend of \$0.10 per share in the first

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quarter of 2003 and \$0.20 per share in the second quarter of 2003, which includes the third quarter dividend declared on June 18, 2003 payable on September 10, 2003.

(9) 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, this revolving credit facility was not utilized. This 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 under the credit agreement.

On February 28, 2003, the Company's \$3.85 billion bank facility was amended and extended to June 2005 as discussed below in Note 9 (b). Loans under this facility are recorded as long-term debt in the Consolidated Balance Sheets at both December 31, 2002 and June 30, 2003.

(b) Long-term Debt.

On February 28, 2003, the Company reached agreement with a syndicate of banks on a second amendment to its bank facility (Second Amendment). Under the Second Amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the \$1.2 billion in mandatory prepayments that would have been required in 2003 were eliminated. At the time of the Second Amendment, the facility consisted of a \$2.35 billion term loan and a \$1.5 billion revolver. Repayments of the term loan of \$50 million in March 2003 and \$954 million in May 2003 (collectively, the Term Loan Reduction) reduced the term loan to \$1.35 billion as of June 30, 2003. At June 30, 2003, \$1.0 billion was borrowed under the \$1.5 billion revolver. Borrowings bear interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. The drawn cost for the facility at the Company's current ratings is LIBOR plus 450 basis points. The Company has agreed to pay the banks an extension fee of 75 basis points on the aggregate amount of unused commitments and loans under the bank facility on October 9, 2003. In connection with the Second Amendment, the Company paid \$41 million in fees that were due on February 28, 2003, along with \$20 million in fees that were to become due on June 30, 2003.

On May 28, 2003, the Company granted the banks a security interest in its 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco eliminated a 25 basis point increase in the borrowing costs under the bank facility that would have been effective after May 28, 2003. The security interest is to be released at the time of the sale of Texas Genco. Proceeds from such sale are required to be used to reduce the bank facility.

In the Second Amendment, the Company agreed, subject to regulatory approval, to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of its common stock at a price equal to the greater of \$6.56 per share or 110% of the closing price on the New York Stock Exchange on the date of issuance of the warrants. The Second Amendment provided for extinguishment of the warrants if the Company reduced the term loans by specified amounts in 2003. The reduction of the term loan to \$1.35 billion discussed above extinguished the obligation to provide the warrants.

In the Second Amendment, the Company agreed that the quarterly common stock

dividend declared and paid will not exceed \$0.10 per share per quarter. During the second quarter of 2003, the Company eliminated an additional common stock dividend limitation contained in the Second Amendment by repaying at least \$400 million of term loans, with at least \$200 million of such repayment made with the proceeds of the issuance of equity-linked securities.

The Second Amendment provides that net proceeds from capital stock or indebtedness issued or incurred by the Company and its subsidiaries must be applied (subject to a \$200 million basket for CERC and another \$250 million basket for borrowings by the Company, certain permitted refinancings of existing debt and other limited exceptions) to repay bank loans and permanently reduce the bank facility. Outstanding borrowings under the \$200 million CERC credit facility (see Note 9(a)) would count against the \$200 million basket for CERC. As of June 30, 2003, this facility was not utilized. The capacity represented by the second basket of \$250 million was utilized in

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connection with the March 18, 2003 debt financing at CenterPoint Houston described below. Similarly, net cash proceeds from the sale of assets of more than \$30 million or, if less, a group of sales aggregating more than \$100 million, must be applied to repay bank loans and reduce the bank facility, except that proceeds of up to \$120 million can be reinvested in the Company's businesses.

On March 18, 2003, CenterPoint Houston issued \$762.3 million aggregate principal amount of general mortgage bonds composed of \$450 million principal amount of 10-year bonds with an interest rate of 5.7% and \$312.3 million principal amount of 30-year bonds with an interest rate of 6.95%. Proceeds were used to redeem approximately \$312.3 million aggregate principal amount of CenterPoint Houston's first mortgage bonds and to repay \$429 million of intercompany notes payable to CenterPoint Energy by CenterPoint Houston. Proceeds from the note repayment were ultimately used by CenterPoint Energy to repay \$150 million aggregate principal amount of medium-term notes maturing on April 21, 2003, to repay borrowings under its \$3.85 billion credit facility and for \$50 million of the Term Loan Reduction.

On March 25 and April 14, 2003, CERC issued \$650 million aggregate principal amount and \$112 million aggregate principal amount, respectively, of 7.875% senior unsecured notes due in 2013. A portion of the proceeds were used to refinance \$360 million aggregate principal amount of CERC'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 CERC'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 due in November 2003 and are expected to be refinanced or remarketed at such time.

On April 9, 2003, the Company remarketed \$175 million aggregate principal amount of pollution control bonds that it had owned since the fourth quarter of 2002. Remarketed bonds maturing in 2029 have a principal amount of \$75 million and an interest rate of 8%. Remarketed bonds maturing in 2018 have a principal amount of \$100 million and an interest rate of 7.75%. Proceeds from the remarketing were used to repay bank debt. At December 31, 2002, the \$175 million of bonds owned by the Company were not reflected as outstanding debt in the Company's Consolidated Balance Sheets.

On May 19, 2003, CenterPoint Energy issued \$575 million aggregate principal amount of convertible senior notes due May 15, 2023 with an interest rate of 3.75%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 86.3558 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following May 15, 2008, 110% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common

stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after May 15, 2008, in the event that the average trading price of a note for the applicable five trading day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. Contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five trading day period. Proceeds from the issuance of the convertible senior notes were used for the Term Loan Reduction and to repay revolver borrowings under the Company's bank facility in the amount of \$557 million and \$0.75 million, respectively.

On May 23, 2003, CenterPoint Houston issued \$200 million aggregate principal amount of 20-year general mortgage bonds with an interest rate of 5.6%. Proceeds were used to redeem, on July 1, 2003, \$200 million

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aggregate principal amount of CenterPoint Houston's 7.5% first mortgage bonds due 2023 at 103.51% of their principal amount. Funds for the redemption were deposited in trust on May 23, 2003, and the first mortgage bonds were legally extinguished.

On May 27, 2003, CenterPoint Energy issued \$400 million aggregate principal amount of senior notes composed of \$200 million principal amount of 5-year notes with an interest rate of 5.875% and \$200 million principal amount of 12-year notes with an interest rate of 6.85%. Proceeds in the amount of \$397 million were used for the Term Loan Reduction.

In July 2003, CenterPoint Energy remarketed two series of insurance-backed pollution control bonds aggregating \$150.9 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, \$92.0 million mature on August 1, 2015 and \$58.9 million mature on October 15, 2015.

(c) Receivables Facility.

In connection with CERC'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 CERC. 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, CERC 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, CERC 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 CERC were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by CERC.

(10) TRUST PREFERRED SECURITIES

(a) CenterPoint Energy.

Statutory business trusts created by CenterPoint Energy have issued trust preferred securities, the terms of which, and the related series of junior subordinated debentures, are described below (in millions):

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, 2002 AND JUNE 30, 2003 (IN MILLIONS)	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
REI Trust I.....	\$ 375	7.20%	March 2048	7.20% Junior Subordinated Debentures
HL&P Capital Trust I.....	\$ 250	8.125%	March 2046	8.125% Junior Subordinated

HL&P Capital Trust II....	\$ 100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B
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For additional information regarding these securities, see Note 10 to the CenterPoint Energy Notes, which note is incorporated herein by reference. The sole asset of each trust consists of junior subordinated debentures of CenterPoint Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities, and the principal amounts corresponding to the common and preferred securities or capital securities issued by that trust.

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(b) CERC Corp.

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 having an interest rate and maturity date that correspond to the distribution rate and the mandatory redemption date of the convertible preferred securities, and the principal amount corresponding to the common and convertible preferred securities issued by the trust. For additional information regarding these securities, see Note 10 to the CenterPoint Energy Notes, which note is incorporated herein by reference.

(11) STOCK-BASED INCENTIVE COMPENSATION PLANS

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure-- an Amendment of SFAS No. 123," the Company applies the guidance contained in Accounting Principles Board Opinion No. 25 and discloses the required pro forma effect on net income of the fair value based method of accounting for stock compensation.

Pro forma information for the three months and six months ended June 30, 2002 and 2003 is provided to take into account the amortization of stock-based compensation to expense on a straight-line basis over the vesting period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Net Income:				
As reported	\$ 236	\$ 63	\$ 267	\$ 232
Total stock-based employee compensation determined under the fair value based method	(2)	(2)	(4)	(6)
Pro forma	<u>\$ 234</u>	<u>\$ 61</u>	<u>\$ 263</u>	<u>\$ 226</u>
Basic Earnings Per Share:				
As reported	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.77
Pro forma	\$ 0.78	\$ 0.20	\$ 0.89	\$ 0.75
Diluted Earnings Per Share:				
As reported	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.76
Pro forma	\$ 0.78	\$ 0.20	\$ 0.88	\$ 0.74

(12) COMMITMENTS AND CONTINGENCIES

(a) Legal Matters.

The Company's predecessor, Reliant Energy, and certain of its former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, the Company and its subsidiaries are entitled to be indemnified by Reliant Resources for any losses, including attorneys' fees and other costs, arising out of the lawsuits described under "California Electricity and Gas Market Cases," "Western States Class Action," "Long-Term Contract Class Action," "Washington and Oregon Class Actions," "Bustamante Price Reporting Class Action," "Gas Trading Cases," "Trading and Marketing Activities" and "Other Class Action Lawsuits." Pursuant to the indemnification obligation, Reliant Resources is

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defending the Company and its subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

California Electricity and Gas Market Cases. Reliant Energy, Reliant Resources, Reliant Energy Power Generation, Inc. (REPG) and several other subsidiaries of Reliant Resources, as well as three former officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. While the plaintiffs allege various violations by the defendants of antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that the defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. The first six of these suits originally were filed in state courts in San Diego, San Francisco and Los Angeles Counties. The suits in San Diego and Los Angeles Counties were consolidated and removed to the federal district court in San Diego, but on December 13, 2002, that court remanded the suits to the state courts. Prior to the remand, Reliant Energy was voluntarily dismissed from two of the suits. Several parties, including the Reliant defendants, have appealed the judge's remand decision. The United States court of appeals stayed the remand order pending the appeal.

In March and April 2002, the California Attorney General filed three complaints, two in state court in San Francisco and one in the federal district court in San Francisco, against Reliant Energy, Reliant Resources, Reliant Energy Services (a wholesale energy marketing subsidiary of Reliant Resources) and other subsidiaries of Reliant Resources alleging, among other matters, violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California independent systems operator, charging unjust and unreasonable prices for electricity, in violation of antitrust laws in connection with the acquisition in 1998 of electric generating facilities located in California. The complaints variously seek restitution and disgorgement of alleged unlawful profits for sales of electricity, civil penalties and fines, injunctive relief against unfair competition, divestment of Reliant Resources' generation capacity and undefined equitable relief. Reliant Resources removed the two state court cases to the federal district court in San Francisco. In August 2002, the district court dismissed the two cases originally filed in state court and also dismissed the damages claims asserted in the antitrust case. The Attorney General has appealed the dismissal of these cases to the court of appeals.

Following the filing of the Attorney General cases, seven additional class action cases were filed in state courts in Northern California. Each of these purports to represent the same class of California ratepayers, assert the same claims as asserted in the other California class action cases, and in some instances repeat as well the allegations in the Attorney General cases. All of these cases have been removed and consolidated in federal district court in San Diego. The defendants have filed a motion to dismiss on grounds that the claims are barred by federal preemption of regulation of wholesale rates by the Federal Energy Regulatory Commission and the filed rate doctrine.

In July 2003, the City of Los Angeles Attorney filed suit against the Company, Reliant Energy, Reliant Resources, Reliant Energy Services and one of Reliant Resources' employees in federal court in Los Angeles. The lawsuit alleges that the defendants conspired to manipulate the price for natural gas in breach of Reliant Energy Services' contract to supply the Los Angeles Department of Water and Power (LADWP) with natural gas in violation of federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organization Act and the California False Claims Act. The lawsuit seeks treble damages for the

alleged overcharges for gas purchased by LADWP of an estimated \$218 million, interest, costs of suit and attorneys' fees. The Company has not yet been served with the complaint.

Western States Class Action. In May 2003, a class action lawsuit was filed against Reliant Resources, Reliant Energy and various market participants in state court in San Diego County, California. The plaintiffs allege that Reliant Resources and Reliant Energy engaged in unfair, unlawful and fraudulent business practices and violations of the California antitrust laws by manipulating energy markets in California and the West. The action is brought on behalf of all persons and businesses residing in Oregon, Washington, Utah, Nevada, Idaho, New Mexico, Arizona and Montana. The lawsuit seeks injunctive relief, treble damages, restitution, costs of suit and attorney's fees. In May 2003, the case was removed to federal court in San Diego. The plaintiffs have moved to remand the case back to state court and the Reliant defendants have filed a petition with the Federal Judicial Panel on Multidistrict Litigation to transfer the case to San Francisco where certain of the cases described under "California Electricity and

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Gas Market Cases" described above are already pending and the judge is not a putative class member. Neither the remand motion nor the motion to transfer has been heard.

Long-Term Contract Class Action. In October 2002, a class action was filed in state court in Los Angeles against Reliant Energy and several subsidiaries of Reliant Resources. The complaint in this case repeats the allegations asserted in the California class actions as well as the Attorney General cases and also alleges misconduct related to long-term contracts purportedly entered into by the California Department of Water Resources. None of the Reliant entities, however, has a long-term contract with the Department of Water Resources. This case has been removed to federal district court in San Diego. The Reliant defendants intend to file motions to dismiss on grounds that the claims are barred by federal preemption and the filed rate doctrine.

Washington and Oregon Class Actions. In December 2002, a lawsuit was filed in Circuit Court of the State of Oregon for the County of Multnomah on behalf of a class of all Oregon purchasers of electricity and natural gas. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries were named as defendants, along with many other electricity generators and marketers. Like the lawsuits filed in California, the plaintiffs claimed the defendants manipulated wholesale power prices in violation of state and federal law. The plaintiffs sought injunctive relief and payment of damages based on alleged overcharges for electricity. Also in December 2002, a nearly identical lawsuit on behalf of consumers in the State of Washington was filed in federal district court in Seattle. Reliant Resources removed the Oregon suit to federal district court in Portland. The plaintiffs in both cases voluntarily dismissed their lawsuits.

Bustamante Price Reporting Class Action. In November 2002, California Lieutenant Governor Cruz Bustamante filed a lawsuit in state court in Los Angeles on behalf of a class of purchasers of gas and power alleging violations of state antitrust laws and state laws against unfair and unlawful business practices based on an alleged conspiracy to report and publish false and fraudulent natural gas prices with an intent to affect the market prices of natural gas and electricity in California. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries were named as defendants, along with various market participants and publishers of some of the price indices. The complaint sought injunctive relief, compensatory and punitive damages, restitution of alleged overpayment, disgorgement of all profits and funds acquired by the alleged unlawful conduct, costs of suit and attorneys' fees. In June 2003, the plaintiffs dismissed their claims against Reliant Energy.

Gas Trading Cases. The Company, Reliant Resources and Reliant Energy have been named as defendants in two lawsuits filed on behalf of a class of purchasers of natural gas alleging violations of state antitrust laws and state laws against unfair and unlawful business practices based on an alleged conspiracy with Enron Corp. to manipulate the California natural gas markets in 2000 and 2001. One lawsuit was filed in April 2003 in state court in Los Angeles County, California, and the other was filed in May 2003 in state court in San Diego County, California. The complaints are based on certain conclusions in a report by the staff of the Federal Energy Regulatory Commission that has not been subject to procedures designed to allow parties to either discover or test the basis for the conclusions. The complaint seeks injunctive and declaratory relief, compensatory and punitive damages, restitution, costs of suit and attorneys' fees. The complaint alleges that there were "well over one billion dollars in excess charges to California consumers during the 2000 through 2001 time period." The plaintiffs are seeking a trebling of any damages award.

Reliant Resources removed both cases to federal court and the plaintiffs in both cases have moved to remand the cases back to state court. The plaintiffs in the San Diego case have also filed a petition with the Federal Judicial Panel on Multidistrict Litigation to transfer the case to federal court in Nevada. The defendants have filed their own motion with the Panel to transfer the case to the Southern District of New York. Neither the remand nor the transfer motions have been heard. While Reliant Resources has not yet filed an answer, the Company understands that Reliant Resources intends to deny both the alleged violation of any laws and the participation in a conspiracy with Enron. Neither the Company nor Reliant Energy was a party in the proceedings in which the report was submitted. Only former subsidiaries of the predecessor to the Company engaged in gas trading activities in California; however, neither the Company nor any of its current subsidiaries has ever engaged in gas trading in California.

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Trading and Marketing Activities. Reliant Energy has been named as a party in several lawsuits and regulatory proceedings relating to the trading and marketing activities of its former subsidiary, Reliant Resources.

In June 2002, the SEC advised Reliant Resources and Reliant Energy that it had issued a formal order in connection with its investigation of Reliant Resources' and Reliant Energy's financial reporting, internal controls and related matters. The investigation was focused on Reliant Resources' same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price and certain structured transactions. These matters were previously the subject of an informal inquiry by the SEC. On May 12, 2003, the SEC advised Reliant Resources and Reliant Energy that it had issued a formal order in connection with this investigation. Reliant Energy, through its successor and our subsidiary, CenterPoint Houston, has entered into a settlement with the SEC that concludes this investigation. Under the settlement, Reliant Resources and Reliant Energy consented to the entry of an administrative cease-and-desist order with respect to future violations of certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, without admitting or denying the SEC's findings that violations of these laws had occurred. The SEC did not assess monetary penalties or fines against Reliant Energy, us or any of our subsidiaries.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the ERCOT market on and after July 31, 2001, Reliant Energy and Reliant Resources have provided information to the Texas Utility Commission concerning their scheduling and trading activities.

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court in Houston. Reliant Resources and certain of its former and current executive officers are named as defendants. Reliant Energy is also named as a defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the Reliant Resources Offering. One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The consolidated amended complaint seeks monetary relief purportedly on behalf of three classes: (1) purchasers of Reliant Energy common stock from February 3, 2000 to May 13, 2002; (2) purchasers of Reliant Resources common stock on the open market from May 1, 2001 to May 13, 2002; and (3) purchasers of Reliant Resources common stock in the Reliant Resources Offering or purchasers of shares that are traceable to the Reliant Resources Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of Reliant Resources for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to inflate artificially trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as

defendants in all of the lawsuits. Two of the lawsuits have been dismissed without prejudice. The remaining lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered by a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of the Company. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse

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of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused the Company to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off and the Reliant Resources Offering. The complaint seeks monetary damages on behalf of the Company as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the Company before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

The Company's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The latter letter demanded that the Company take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the Board determined that these proposed actions would not be in the best interests of the Company.

The Company believes that none of these lawsuits has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to any of the plaintiffs.

Texas Action. In July 2003, Texas Commercial Energy filed a lawsuit against Reliant Energy, Reliant Resources, Reliant Electric Solutions, LLC, several other Reliant Resources subsidiaries and several other participants in the Electric Reliability Council of Texas, Inc. (ERCOT) power market in federal court in Corpus Christi, Texas. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit seeks damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The Company has not yet been served with the complaint.

Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. A jury trial of the original claimant cities (but not the class of cities) in the 269th Judicial District Court for Harris County, Texas, ended in April 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, it found in favor of the original claimant cities on three issues, and assessed a total of \$4 million in actual and \$30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, the state court of appeals in Houston rendered an

opinion reversing the judgment against the Company and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The Three Cities have filed a petition for review at the Texas Supreme Court, where the matter remains pending.

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy cannot be assessed until judgments are final and no longer subject to appeal. However, the court of appeals' ruling appears to be consistent with Texas Supreme Court opinions. The Company estimates the range of possible outcomes for recovery by the plaintiffs in the Three Cities case to be between \$-0- and \$18 million inclusive of interest and attorneys' fees.

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 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 the Company, 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 certain 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 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.

Supplier Suits. Texas Genco is currently engaged in a dispute with its fuel supplier at its Limestone electric generation facility over the terms and pricing for fuel supplied to that facility under a 1999 settlement agreement

between the parties and under ancillary obligations. Texas Genco has filed suit for a declaratory judgment and damages against the supplier, Northwestern Resources Co. (NWR), in Harris County, Texas, and NWR has filed an amended petition seeking a declaratory judgment in an action previously filed against Reliant Energy in Limestone County, Texas. NWR claims Texas Genco has breached its obligations by modifying its generation facility to burn coal from the Powder River Basin and by purchasing coal from the Powder River Basin without first giving NWR a right of first refusal to supply lignite at a price that is equal to or less than the coal from the Powder River Basin. NWR also contends that Texas Genco is not entitled to certain production royalties. In its suit, Texas Genco seeks rulings that it has not breached its obligations regarding the modification of its facilities and the burning of Powder River Basin coal but that, instead, NWR has breached its obligations by failing to pay production royalties and in other respects.

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 condition, results of operations or cash flows.

(b) Environmental Matters.

Clean Air Standards. The Texas electric restructuring law and regulations adopted by the Texas Commission on Environmental Quality in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. Through June 30, 2003, the Company has invested \$610 million for NOx emission control, and plans to make expenditures of up to approximately \$181 million for the remainder of 2003 through 2007. The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission has determined that the Company's emission control plan is the most cost-effective option for achieving compliance with applicable air quality standards for the Company's generating

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facilities and the final amount for recovery will be determined in the 2004 True-Up Proceeding.

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. 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 CERC's 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 June 30, 2003, CERC 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. CERC has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. CERC has collected or accrued \$12.4 million at June 30, 2003 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 other sites. CERC 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 CERC 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. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power

plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(c) 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.

(d) Other Proceedings.

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(e) Nuclear Insurance.

Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain \$2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was \$9.3 billion as of June 30, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to \$88 million per reactor. The owners are jointly and severally liable at a rate not to exceed \$10 million per incident per year. In addition, the security procedures at this facility have recently been enhanced to provide additional protection against terrorist attacks.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

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(f) Nuclear Decommissioning.

Texas Genco contributed \$2.9 million in 2002 to trusts established to fund its share of the decommissioning costs for the South Texas Project, and expects to contribute \$2.9 million in 2003. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the United States Nuclear Regulatory Commission (NRC) relating to Texas Genco's nuclear decommissioning trusts. Texas Genco and CenterPoint Energy have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of \$174 million as of June 30, 2003, of which approximately 40% were fixed-rate debt securities and the remaining 60% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 3(k) to the CenterPoint Energy Notes, which note is incorporated herein by reference. In July 1999, an outside consultant estimated Texas Genco's portion of decommissioning costs to be approximately \$363 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission

and distribution customers. CenterPoint Energy is contractually obligated to indemnify Texas Genco from and against any obligations relating to the decommissioning not otherwise satisfied through collections by CenterPoint Houston. For information regarding the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(b) to the CenterPoint Energy Notes, which note is incorporated herein by reference.

(g) "Price to Beat" Clawback Component.

In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers within their affiliated electric utility's service area. The true-up provides for a clawback of "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a non-affiliated retail electric provider by January 1, 2004. Pursuant to the Texas electric restructuring law and the master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the true-up. The clawback may not exceed \$150 times the number of customers served by the affiliated retail electric provider in the transmission and distribution utility's service territory, less the number of customers served by the affiliated retail electric provider outside the transmission and distribution utility's service territory, on January 1, 2004.

(13) EARNINGS PER SHARE

The following table presents the Company's basic and diluted earnings per share (EPS) calculation:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income from continuing operations before cumulative effect of accounting change.....	\$ 86	\$ 83	\$ 231	\$ 165
Discontinued Operations:				
Income from Reliant Resources, net of tax.....	148	--	34	--
Income (loss) from Other Operations, net of tax.....	2	(1)	2	(1)
Loss on disposal of Other Operations, net of tax.....	--	(19)	--	(12)
Cumulative effect of accounting change, net of minority interest and tax.....	--	--	--	80
Net income attributable to common shareholders.....	\$ 236	\$ 63	\$ 267	\$ 232
Weighted average shares outstanding.....	297,696,000	304,046,000	296,963,000	302,373,000
Basic EPS:				
Income from continuing operations before cumulative effect of accounting change.....	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income from Reliant Resources, net of tax.....	0.49	--	0.11	--
Income (loss) from Other Operations, net of tax.....	0.01	--	0.01	--
Loss on disposal of Other Operations, net of tax.....	--	(0.06)	--	(0.04)
Cumulative effect of accounting change, net of minority interest and tax.....	--	--	--	0.27
Net income attributable to common shareholders.....	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.77
Diluted EPS Calculation:				
Net income attributable to common shareholders.....	\$ 236	\$ 63	\$ 267	\$ 232
Plus: Income impact of assumed conversions:				
Interest on 61/4% convertible trust preferred securities.....	--	--	--	--
Total earnings effect assuming dilution.....	\$ 236	\$ 63	\$ 267	\$ 232
Weighted average shares outstanding.....	297,696,000	304,046,000	296,963,000	302,373,000
Plus: Incremental shares from assumed conversions (1):				
Stock options.....	10,000	909,000	206,000	627,000

Restricted stock.....	752,000	1,131,000	752,000	1,131,000
61/4% convertible trust preferred securities.....	13,000	18,000	13,000	18,000
Weighted average shares assuming dilution.....	298,471,000	306,104,000	297,934,000	304,149,000
<hr/>				
Diluted EPS:				
Income from continuing operations before cumulative effect of accounting change.....	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income from Reliant Resources, net of tax.....	0.49	--	0.11	--
Income (loss) from Other Operations, net of tax.....	0.01	--	0.01	--
Loss on disposal of Other Operations, net of tax.....	--	(0.06)	--	(0.04)
Cumulative effect of accounting change, net of minority interest and tax.....	--	--	--	0.26
Net income attributable to common shareholders.....	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.76

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- (1) For the three months ended June 30, 2002 and 2003, the computation of diluted EPS excludes 5,693,413 and 10,205,812 purchase options, respectively, for shares of common stock that have exercise prices (ranging from \$22.19 to \$50.00 per share and \$12.13 to \$32.26 per share for the second quarter 2002 and 2003, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

For the six months ended June 30, 2002 and 2003, the computation of diluted EPS excludes 5,597,490 and 10,244,822 purchase options, respectively, for shares of common stock that have exercise prices (ranging from \$22.44 to \$50.00 per share and \$7.56 to \$32.26 per share for the first six months of 2002 and 2003, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(14) REPORTABLE BUSINESS SEGMENTS

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The Company has identified the following reportable business segments: Electric Transmission & Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering and Other Operations. Reportable business segments presented herein do not include Wholesale Energy, European Energy, Retail Energy and related corporate costs as these business segments operated within Reliant Resources, which is presented as discontinued operations within these consolidated financial statements. Additionally, the Company's Latin America operations and its energy management services business, which were previously reported in the Other Operations business segment, are presented as discontinued operations within these consolidated financial statements. Reportable business segments for all prior periods presented have been restated to conform to the 2003 presentation.

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 that the chief operating decision maker uses 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, minority interest and income taxes (EBIT) basis. Historically, the difference between EBIT reported on a segment basis and operating income on a segment basis has not been material.

Financial data for the Company's reportable business segments are as follows:

FOR THE THREE MONTHS ENDED JUNE 30, 2002				
<hr/>				
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	
<hr/>				
(IN MILLIONS)				
Electric Transmission & Distribution (1).....	\$ 528 (2)	\$ --	\$ 275	

Electric Generation.....	417 (3)	(4)	(29)
Natural Gas Distribution.....	780	17	11
Pipelines and Gathering.....	72	30	39
Other Operations.....	1	6	(7)
Eliminations.....	--	(49)	--
Consolidated.....	\$ 1,798	\$ --	\$ 289

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FOR THE THREE MONTHS ENDED JUNE 30, 2003

	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
(IN MILLIONS)			
Electric Transmission & Distribution.....	\$ 482 (2)	\$ --	\$ 235
Electric Generation.....	578 (3)	--	50
Natural Gas Distribution.....	954	17	21
Pipelines and Gathering.....	73	49	42
Other Operations.....	4	5	(2)
Eliminations.....	--	(71)	--
Consolidated.....	\$ 2,091	\$ --	\$ 346

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

	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
(IN MILLIONS)				
Electric Transmission & Distribution (1).....	\$ 1,096 (4)	\$ --	\$ 528	\$ 9,098
Electric Generation.....	683 (5)	56	(81)	4,416
Natural Gas Distribution.....	1,960	17	118	4,051
Pipelines and Gathering.....	134	60	76	2,481
Other Operations.....	3	11	--	1,345
Discontinued Operations.....	--	--	--	63
Eliminations.....	--	(144)	--	(1,747)
Consolidated.....	\$ 3,876	\$ --	\$ 641	\$ 19,707

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

	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
(IN MILLIONS)				
Electric Transmission & Distribution	\$ 929 (4)	\$ --	\$ 440	\$ 9,609
Electric Generation.....	937 (5)	--	33	4,694
Natural Gas Distribution.....	2,982	33	151	4,169
Pipelines and Gathering.....	134	97	85	2,458
Other Operations.....	9	9	(2)	1,149
Discontinued Operations.....	--	--	--	28
Eliminations.....	--	(139)	--	(2,218)
Consolidated.....	\$ 4,991	\$ --	\$ 707	\$ 19,889

- (1) Retail customers remained regulated customers of Reliant Energy HL&P, then an unincorporated division of Reliant Energy, through the date of their first meter reading in January 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission & Distribution business segment.
- (2) Sales to subsidiaries of Reliant Resources for the three months ended June 30, 2002 and 2003 represented approximately \$246 million and \$225 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.
- (3) Sales to subsidiaries of Reliant Resources for the three months ended June 30, 2002 and 2003 represented approximately 76% and 72%, respectively, of Texas Genco's total revenues. Sales to a major customer for the

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three months ended June 30, 2002 and 2003 represented approximately 11% and 10%, respectively, of Texas Genco's total revenues.

- (4) Sales to subsidiaries of Reliant Resources for the six months ended June 30, 2002 and 2003 represented approximately \$363 million and \$437 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.
- (5) Sales to subsidiaries of Reliant Resources for the six months ended June 30, 2002 and 2003 represented approximately 66% and 70%, respectively, of Texas Genco's total revenues. Sales to a major customer for each of the six months ended June 30, 2002 and 2003 represented approximately 10% of Texas Genco's total revenues.

Reconciliation of Operating Income to Net Income Attributable to Common Shareholders:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating income.....	\$ 289	\$ 346	\$ 641	\$ 707
Gain (loss) on AOL Time Warner investment.....	(230)	113	(448)	65
Gain (loss) on indexed debt securities.....	219	(98)	422	(56)
Interest expense.....	(140)	(215)	(257)	(439)
Distribution on trust preferred securities.....	(14)	(14)	(28)	(28)
Other income, net.....	8	1	15	5
Income tax expense.....	(46)	(44)	(114)	(85)
Minority interest.....	--	(6)	--	(4)
Income from continuing operations before cumulative effect of accounting change.....	86	83	231	165
Discontinued Operations:				
Income from Reliant Resources, net of tax.....	148	--	34	--
Income (loss) from Other Operations, net of tax....	2	(1)	2	(1)
Loss on disposal of Other Operations, net of tax...	--	(19)	--	(12)
Cumulative effect of accounting change, net of minority interest and tax.....	--	--	--	80
Net income attributable to common shareholders.....	\$ 236	\$ 63	\$ 267	\$ 232

(15) SUBSEQUENT EVENT

On July 15, 2003, a steam line ruptured at Texas Genco's W.A. Parish coal facility damaging one of the facility's units and temporarily taking another unit offline. Texas Genco anticipates that the unit will be out of service through September 2003. A thorough root cause analysis process is underway and a detailed repair plan is being implemented. An estimated cost for damage repair is being developed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CENTERPOINT ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in combination with our Interim Financial Statements contained in this report.

OVERVIEW

We are a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) in compliance with requirements of the Texas electric restructuring law. We are the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. Our operating subsidiaries own and operate electric generation plants, electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. We are a registered holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). For information about the 1935 Act, see "Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- Capitalization." Our indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in our electric transmission and distribution business in the Texas Gulf Coast area; and
- CenterPoint Energy Resources Corp. (CERC Corp., and together with its subsidiaries, CERC), which owns and operates our local gas distribution companies, gas gathering systems and interstate pipelines.

We also have an approximately 81% ownership interest in Texas Genco Holdings, Inc. (Texas Genco), which owns and operates the Texas generating plants formerly belonging to the integrated electric utility that was a part of Reliant Energy. We distributed the remaining 19% of the outstanding common stock of Texas Genco to our shareholders on January 6, 2003.

At the time of Reliant Energy's corporate restructuring, it owned an 83% interest in Reliant Resources, Inc. (Reliant Resources), which conducts non-utility wholesale and retail energy operations primarily in North America and Western Europe. On September 30, 2002, we distributed that interest to our shareholders (the Reliant Resources Distribution).

In this section we discuss our results from continuing operations on a consolidated basis and individually for each of our business segments. We also discuss our liquidity, capital resources and critical accounting policies. Our reportable business segments include the following:

- Electric Transmission & Distribution;
- Electric Generation (Texas Genco);
- Natural Gas Distribution;
- Pipelines and Gathering; and
- Other Operations.

Effective with the full deregulation of sales of electric energy to retail customers in Texas beginning in January 2002, power generators and retail electric providers in Texas ceased to be subject to traditional cost-based regulation. Since that date, we have sold generation capacity, energy and ancillary services related to power generation at prices determined by the market. Our transmission and distribution services remain subject to rate regulation. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of our former integrated electric utility, Reliant Energy HL&P, through the date of their first

meter reading in 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission & Distribution business segment. For business segment reporting information, please read Notes

1 and 14 to our Interim Financial Statements.

Subsequent to December 31, 2002, we sold our remaining Latin America operations. The Interim Financial Statements present these Latin America operations as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

We are negotiating to sell a component of our Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. We recorded an after-tax loss in discontinued operations of \$16.2 million (\$25.0 million pre-tax) during the three months ended June 30, 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. The Interim Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

The Interim Financial Statements have been prepared to reflect the effect of the Reliant Resources Distribution on the CenterPoint Energy financial statements. The Interim Financial Statements present the Reliant Resources businesses (previously reported as Wholesale Energy, European Energy and Retail Energy business segments and related corporate costs) as discontinued operations, in accordance with SFAS No. 144.

RECENT DEVELOPMENTS

On July 15, 2003, a steam line ruptured at Texas Genco's W.A. Parish coal facility damaging one of the facility's units and temporarily taking another unit offline. Texas Genco anticipates that the unit will be out of service through September 2003. A thorough root cause analysis process is underway and a detailed repair plan is being implemented. An estimated cost for damage repair is being developed.

During a routine refueling and maintenance outage in early April 2003, engineers found a small quantity of residue from reactor cooling water in the South Texas Project Electric Generating Station (South Texas Project) Unit 1 reactor containment building. Upon discovery of the residue, South Texas Project officials immediately reported their findings to the Nuclear Regulatory Commission (NRC). The South Texas Project staff completed repairs on South Texas Project Unit 1 and the unit was returned to operation on August 9, 2003 following NRC approval.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
(IN MILLIONS, EXCEPT PER SHARE DATA)				
Revenues.....	\$ 1,798	\$ 2,091	\$ 3,876	\$ 4,991
Operating Expenses.....	1,509	1,745	3,235	4,284
Operating Income.....	289	346	641	707
Gain (Loss) on AOL Time Warner Investment.....	(230)	113	(448)	65
Gain (Loss) on Indexed Debt Securities.....	219	(98)	422	(56)
Interest Expense.....	(140)	(215)	(257)	(439)
Distribution on Trust Preferred Securities.....	(14)	(14)	(28)	(28)
Other, net.....	8	1	15	5
Income Tax Expense.....	(46)	(44)	(114)	(85)
Minority Interest.....	--	(6)	--	(4)
Income From Continuing Operations Before Cumulative Effect of Accounting Change.....	86	83	231	165
Discontinued Operations:				
Income From Reliant Resources, net of tax.....	148	--	34	--
Income (Loss) From Other Operations, net of tax....	2	(1)	2	(1)
Loss on Disposal of Other Operations, net of tax..	--	(19)	--	(12)

Cumulative Effect of Accounting Change, net of minority interest and tax.....	--	--	--	80
Net Income Attributable to Common Shareholders.....	\$ 236	\$ 63	\$ 267	\$ 232
BASIC EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change.....				
Income From Continuing Operations Before Cum....	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income From Reliant Resources, net of tax.....	0.49	--	0.11	--
Income (Loss) From Other Operations, net of tax..	0.01	--	0.01	--
Loss on Disposal of Other Operations, net of tax	--	(0.06)	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax.....	--	--	--	0.27
Net Income Attributable to Common Shareholders.....	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.77
DILUTED EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change.....	\$ 0.29	\$ 0.27	\$ 0.78	\$ 0.54
Discontinued Operations:				
Income From Reliant Resources, net of tax.....	0.49	--	0.11	--
Income (Loss) From Other Operations, net of tax..	0.01	--	0.01	--
Loss on Disposal of Other Operations, net of tax.	--	(0.06)	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax.....	--	--	--	0.26
Net Income Attributable to Common Shareholders.....	\$ 0.79	\$ 0.21	\$ 0.90	\$ 0.76

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

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of \$83 million (\$0.27 per diluted share) for the three months ended June 30, 2003 as compared to \$86 million (\$0.29 per diluted share) for the same period in 2002. The decrease in income from continuing operations of \$3 million was primarily due to the following:

- a \$75 million increase in interest expense due to higher borrowing and financing costs and increased debt levels;

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- a \$40 million decrease in operating income from our Electric Transmission & Distribution business segment primarily due to a reduction in ECOM revenue discussed below; and
- a \$6 million change in minority interest.

The above items were partially offset by:

- a \$79 million increase in operating income from our Electric Generation business segment;
- a net gain of \$15 million in our AOL Time Warner investment and our related indexed debt securities in 2003 as compared to a net loss of \$11 million in 2002;
- a \$10 million increase in operating income from our Natural Gas Distribution business segment;
- a \$5 million decrease in operating loss from our Other Operations business segment; and
- a \$3 million increase in operating income from our Pipelines and Gathering business segment.

Income Tax Expense. During the three months ended June 30, 2003 and 2002, our effective tax rates were 33.2% and 34.7%, respectively. The decrease in the effective tax rate for 2003 compared to 2002 is primarily the result of a decrease in state tax expense offset by a decrease to benefits related to the employee stock ownership plan.

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

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of \$165 million (\$0.54

per diluted share) for the six months ended June 30, 2003 as compared to \$231 million (\$0.78 per diluted share) for the same period in 2002. The decrease in income from continuing operations of \$66 million was primarily due to the following:

- a \$182 million increase in interest expense due to higher borrowing costs and increased debt levels and financing costs;
- an \$88 million decrease in operating income from our Electric Transmission & Distribution business segment primarily due to a reduction in ECOM revenue discussed below; and
- a \$10 million decrease in other income.

The above items were partially offset by:

- a \$114 million increase in operating income from our Electric Generation business segment;
- a \$33 million increase in operating income from our Natural Gas Distribution business segment;
- a net gain of \$9 million in our AOL Time Warner investment and our related indexed debt securities in 2003 as compared to a net loss of \$26 million in 2002; and
- a \$29 million decrease in income tax expense.

Income Tax Expense. During the six months ended June 30, 2003 and 2002, our effective tax rates were 33.6% and 33.0%, respectively.

Cumulative Effect of Accounting Change. In connection with the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), we have completed an assessment of the applicability and implications of SFAS No. 143. As a result of the assessment, we have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the Jewett mine supplying the

Limestone electric generation facility. The net difference between the amounts determined under SFAS No. 143 and the previous method of accounting for estimated mine reclamation costs was \$37 million and has been recorded as a cumulative effect of accounting change. Upon adoption of SFAS No. 143, we reversed \$115 million of previously recognized removal costs with respect to our non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was \$152 million. Excluded from the \$80 million after-tax cumulative effect of accounting change recorded during the three months ended March 31, 2003, is minority interest of \$19 million related to the Texas Genco stock not owned by CenterPoint Energy. For additional discussion of the adoption of SFAS No. 143, please read Note 3 to our Interim Financial Statements.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

In the second quarter of 2003, we began to evaluate business segment performance on an operating income basis. Operating income is shown because it is the measure 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, we evaluated performance on an earnings before interest expense, minority interest and income taxes (EBIT) basis. Historically, the difference between EBIT reported on a segment basis and operating income on a segment basis has not been material.

The following table presents operating income (loss) for each of our business segments for the three and six months ended June 30, 2002 and 2003. Some amounts from the previous year have been reclassified to conform to the 2003 presentation of the financial statements. These reclassifications do not affect consolidated net income.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
(IN MILLIONS)				
Electric Transmission & Distribution.....	\$ 275	\$ 235	\$ 528	\$ 440
Electric Generation.....	(29)	50	(81)	33
Natural Gas Distribution.....	11	21	118	151
Pipelines and Gathering.....	39	42	76	85
Other Operations.....	(7)	(2)	--	(2)
Total Consolidated Operating Income.....	\$ 289	\$ 346	\$ 641	\$ 707

ELECTRIC TRANSMISSION & DISTRIBUTION

For information regarding factors that may affect the future results of operations of our Electric Transmission & Distribution business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Electric Transmission & Distribution Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

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The following tables provide summary data of our Electric Transmission & Distribution business segment for the three months and six months ended June 30, 2002 and 2003:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
(IN MILLIONS)				
Operating Revenues:				
Electric Revenues.....	\$ 358	\$ 381	\$ 785	\$ 696
ECOM True-Up.....	170	101	311	233
Total Operating Revenues.....	528	482	1,096	929
Operating Expenses:				
Purchased Power.....	(4)	--	56	--
Operation and Maintenance.....	130	126	270	259
Depreciation and Amortization.....	66	68	130	133
Taxes Other than Income Taxes.....	61	53	112	97
Total Operating Expenses.....	253	247	568	489
Operating Income.....	\$ 275	\$ 235	\$ 528	\$ 440
Residential throughput (in gigawatt-hours (GWh)) (1).....	6,296	6,490	10,769	11,049

- (1) This table no longer reflects usage volumes (KWh) for commercial and industrial customers because the majority of these customers are billed on a peak demand (KW) basis and, as a result, revenues do not vary based on consumption.

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

Our Electric Transmission & Distribution business segment reported operating income of \$235 million for the three months ended June 30, 2003, consisting of \$134 million for the regulated electric transmission and distribution utility and non-cash operating income of \$101 million associated with generation-related regulatory assets, or Excess Cost Over Market (ECOM), as described below. For the three months ended June 30, 2002, operating income was \$275 million, consisting of \$105 million for the regulated electric transmission and distribution utility and non-cash operating income of \$170 million associated with ECOM. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of the regulated

utility through the date of their first meter reading in 2002. Purchased power activity of \$4 million for the three months ended June 30, 2002 relates to operation of the regulated utility during this transition period.

The regulated electric transmission and distribution utility continues to benefit from solid customer growth. Revenues increased from the addition of over 51,000 metered customers since June 2002 (\$13 million) as well as the positive impact of weather (\$5 million).

Under the Texas electric restructuring law, a regulated utility may recover, in its 2004 stranded cost true-up proceeding, any difference between market prices received through the state mandated auctions and the Texas Utility Commission's earlier estimates of those market prices. During 2002 and 2003, this difference, referred to as ECOM, produced non-cash operating income and is recorded as a regulatory asset. The reduction in ECOM True-Up revenue of \$69 million from 2002 to 2003 is primarily a result of lower margins derived from the ECOM model for this period in 2003 compared to the same period in 2002.

Operation and maintenance expense decreased \$4 million for the three months ended June 30, 2003 as compared to the same period in 2002 primarily due to reduced staffing levels as a result of process improvements (\$4 million) and decreased transmission cost of service (\$2 million), partially offset by increased pension expense (\$4 million).

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

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Taxes other than income taxes decreased \$8 million for the three months ended June 30, 2003 as compared to the same period in 2002 primarily due to decreased city franchise fees (\$6 million) and decreased state franchise taxes (\$4 million), partially offset by increased property taxes (\$2 million).

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

Our Electric Transmission & Distribution business segment reported operating income of \$440 million for the six months ended June 30, 2003, consisting of \$207 million for the regulated electric transmission and distribution utility and non-cash operating income of \$233 million associated with ECOM. For the six months ended June 30, 2002, operating income was \$528 million, consisting of \$217 million for the regulated electric transmission and distribution utility and non-cash operating income of \$311 million associated with ECOM. The purchased power costs of \$56 million for the six months ended June 30, 2002 relate to operation of the regulated utility during the transition period discussed above.

Increased revenues from customer growth (\$20 million) and positive impacts of weather (\$5 million) were more than offset by transition period revenues in 2002 (\$97 million) and decreased industrial demand.

The reduction in ECOM True-Up revenue of \$78 million from 2002 to 2003 primarily resulted from lower margins derived from the ECOM model for this period in 2003 compared to the same period in 2002.

Operation and maintenance expense decreased \$11 million for the six months ended June 30, 2003 as compared to the same period in 2002. The decrease was primarily due to a reduction in bad debt expense related to the 2002 transition period revenues (\$15 million), decreased transmission cost of service (\$4 million) and the termination of a factoring program (\$3 million). These decreases were partially offset by increased employee benefit expenses primarily due to increased pension costs (\$9 million) and increased insurance expenses (\$3 million).

Depreciation and amortization expense increased \$3 million for the six months ended June 30, 2003 as compared to the same period in 2002 primarily due to increases in plant in service (\$5 million), partially offset by decreased amortization on securitized assets (\$2 million).

Taxes other than income taxes decreased \$15 million for the six months ended June 30, 2003 as compared to the same period in 2002 primarily due to gross receipts tax associated with transition period revenue in the first quarter of 2002 (\$9 million) and decreased state franchise taxes (\$6 million).

ELECTRIC GENERATION

For information regarding factors that may affect the future results of operations of our Electric Generation business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Electric Generation Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following tables provide summary data of our Electric Generation business segment for the three months and six months ended June 30, 2002 and 2003:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
(IN MILLIONS)				
Operating Revenues:				
Energy Revenues.....	\$ 307	\$ 378	\$ 547	\$ 602
Capacity and Other Revenues.....	107	200	192	335
Total Operating Revenues.....	414	578	739	937
Operating Expenses:				
Fuel and Purchased Power.....	299	372	528	592
Operation and Maintenance.....	79	105	174	211
Depreciation and Amortization.....	39	39	79	78
Taxes Other than Income Taxes.....	26	12	39	23
Total Operating Expenses.....	443	528	820	904
Operating Income (Loss).....	\$ (29)	\$ 50	\$ (81)	\$ 33
Power Sales (in GWh).....	14,644	12,517	26,447	21,794

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

Our Electric Generation business segment reported operating income of \$50 million for the three months ended June 30, 2003 compared to a loss of \$29 million for the three months ended June 30, 2002. The \$79 million improvement was primarily attributable to increased margins from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, offset by increased fuel costs due to higher natural gas prices and purchased power costs. Due to the operating flexibility of some of the gas units, Texas Genco was able to partially mitigate the higher cost of natural gas by switching from natural gas to fuel oil.

Operation and maintenance expense increased \$26 million for the three months ended June 30, 2003 as compared to the same period in 2002. Approximately \$6 million was associated with higher pension and employee benefits, \$6 million with scheduled plant outages, \$4 million with repairs to South Texas Project Unit 1 and \$5 million associated with the timing of technical support costs.

Taxes other than income taxes decreased \$14 million for the three months ended June 30, 2003 as compared to the same period in 2002. This decrease was primarily attributable to a reduction in state franchise taxes which are no longer applicable in 2003.

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

Our Electric Generation business segment reported operating income of \$33 million for the six months ended June 30, 2003 compared to a loss of \$81 million for the six months ended June 30, 2002. The \$114 million improvement was primarily attributable to increased margins from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, offset by increased fuel costs due to higher natural gas prices and purchased power costs. Due to the operating flexibility of some of the gas units, Texas Genco was able to partially mitigate the higher cost of natural gas by switching from natural gas to fuel oil.

Operation and maintenance expense increased \$37 million for the six months ended June 30, 2003 as compared to the same period in 2002. The increase was primarily due to repairs on South Texas Project Unit 1 (\$4 million), an unplanned outage on South Texas Project Unit 2 (\$4 million), a planned refueling outage on South Texas Project Unit 1 without a comparable outage in 2002 (\$6 million), higher pension and employee benefit costs (\$4 million), timing of technical support expenses (\$9 million) and increased insurance and other expenses (\$7 million).

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Taxes other than income taxes decreased \$16 million for the six months ended June 30, 2003 as compared to the same period in 2002. This decrease was primarily attributable to a reduction in state franchise taxes that are no longer applicable in 2003 and a reduction in property taxes due to lower valuations.

NATURAL GAS DISTRIBUTION

Our Natural Gas Distribution business segment's operations consist of natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas. This business segment's operations also include non-rate regulated natural gas sales to and transportation services for commercial and industrial customers in the six states listed above as well as several other Midwestern states.

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Natural Gas Distribution and Pipelines and Gathering Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following table provides summary data of our Natural Gas Distribution business segment for the three months and six months ended June 30, 2002 and 2003:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
(IN MILLIONS)				
Operating Revenues.....	\$ 797	\$ 971	\$ 1,977	\$ 3,015
Operating Expenses:				
Natural Gas.....	604	761	1,488	2,455
Operation and Maintenance.....	125	137	256	284
Depreciation and Amortization.....	32	34	62	67
Taxes Other than Income Taxes.....	25	18	53	58
Total Operating Expenses.....	786	950	1,859	2,864
Operating Income.....	\$ 11	\$ 21	\$ 118	\$ 151
Throughput (in billion cubic feet (Bcf)):				
Residential and Commercial.....	49	36	181	192
Industrial.....	13	12	24	24
Transportation.....	13	11	28	26
Non-rate Regulated Commercial and Industrial.....	96	111	217	245
Total Throughput.....	171	170	450	487

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

Our Natural Gas Distribution business segment's operating income increased \$10 million for the three months ended June 30, 2003 as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the three months ended June 30, 2003 were \$17 million higher than in the same period in 2002 primarily because of:

- higher revenues from rate increases late in 2002 (\$9 million);

- improved margins from our unregulated commercial and industrial sales (\$3 million); and
- continued customer growth (\$1 million).

These increases were partially offset by increased operating expenses as discussed below.

Operation and maintenance expense increased \$12 million for the three months ended June 30, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

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- higher employee benefit expenses primarily due to increased pension costs (\$8 million); and
- 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

Our Natural Gas Distribution business segment's operating income increased \$33 million for the six months ended June 30, 2003 as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the six months ended June 30, 2003 were \$71 million higher than in the same period in 2002 primarily because of:

- higher revenues from rate increases late in 2002 (\$20 million);
- improved margins from our unregulated commercial and industrial sales (\$12 million);
- franchise fees billed to customers (\$7 million);
- continued customer growth (\$5 million); and
- colder weather (\$4 million).

These increases were partially offset by increased operating expenses as discussed below.

Operation and maintenance expense increased \$28 million for the six months ended June 30, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

- higher employee benefit expenses primarily due to increased pension costs (\$12 million);
- 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
- increased bad debt expense primarily due to colder weather and higher gas prices (\$2 million).

Depreciation and amortization expense increased \$5 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 \$5 million for the six months ended June 30, 2003 as compared to the same period in 2002, primarily due to franchise fees resulting from higher revenue (\$7 million).

PIPELINES AND GATHERING

Our Pipelines and Gathering business segment operates two interstate natural gas pipelines and provides gathering and pipeline services.

For information regarding factors that may affect the future results of operations of our Pipelines and Gathering business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Natural Gas Distribution and Pipelines and Gathering Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following table provides summary data of our Pipelines and Gathering business segment for the three months and six months ended June 30, 2002 and 2003:

<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues.....	\$ 102	\$ 122	\$ 194	\$ 231
Operating Expenses:				
Natural Gas.....	10	35	17	56
Operation and Maintenance.....	38	30	72	60
Depreciation and Amortization.....	10	11	20	21
Taxes Other than Income Taxes.....	5	4	9	9
Total Operating Expenses.....	63	80	118	146
Operating Income.....	\$ 39	\$ 42	\$ 76	\$ 85
Throughput (in Bcf):				
Sales	5	4	10	8
Transportation.....	205	203	443	471
Gathering.....	70	74	141	146
Elimination (1).....	(1)	(2)	(1)	(4)
Total Throughput.....	279	279	593	621

(1) Elimination of volumes both transported and sold.

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

Our Pipelines and Gathering business segment's operating income for the three months ended June 30, 2003 compared to the same period in 2002 increased \$3 million. Operating margins (revenues less natural gas costs) were \$5 million lower for the three months ended June 30, 2003 than in the same period in 2002 primarily due to:

- reduced project-related revenues (\$10 million); and
- a one-time refund of a tax on fuel in 2002 (\$3 million), partially offset by;
- improved margins from new transportation contracts to power plants (\$4 million);
- improved margins from enhanced services in our gas gathering operations (\$2 million); and
- higher commodity prices (\$2 million).

Operation and maintenance expenses decreased \$8 million for the three months ended June 30, 2003 compared to the same period in 2002 primarily due to the decrease in project-related costs (\$10 million).

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

Our Pipelines and Gathering business segment's operating income for the six months ended June 30, 2003 compared to the same period in 2002 increased \$9 million. Operating margins (revenues less natural gas costs) were \$2 million lower for the six months ended June 30, 2003 than in the same period in 2002 primarily due to:

- reduced project-related revenues (\$15 million); and
- a one-time refund of a tax on fuel in 2002 (\$3 million), partially offset by;
- higher commodity prices (\$6 million);
- higher commodity prices (\$6 million);
- improved margins from new transportation contracts to power plants (\$5 million); and
- improved margins from enhanced services in our gas gathering operations (\$3 million).

Operation and maintenance expenses decreased \$12 million for the six months ended June 30, 2003 compared to the same period in 2002 primarily due to the decrease in project-related costs (\$15 million).

OTHER OPERATIONS

Our Other Operations business segment includes other corporate operations which support all of our business operations.

The following table provides summary data of our Other Operations business segment for the three months and six months ended June 30, 2002 and 2003:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues.....	\$ 7	\$ 9	\$ 14	\$ 18
Operating Expenses.....	14	11	14	20
Operating Loss.....	<u>\$ (7)</u>	<u>\$ (2)</u>	<u>\$ --</u>	<u>\$ (2)</u>

DISCONTINUED OPERATIONS

In February 2003, we sold our interest in Argener, a cogeneration facility in Argentina, for \$23 million. The carrying value of this investment was approximately \$11 million as of December 31, 2002. We recorded an after-tax gain of \$7 million from the sale of Argener in the first quarter of 2003. In April 2003, we sold our final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de Santiago del Estero S.A. (Edese). We recorded an after-tax loss of \$3 million in the second quarter of 2003 related to our Latin America operations. We have completed our strategy of exiting Latin America. The Interim Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

On September 30, 2002, we distributed to our shareholders on a pro rata basis all of the shares of Reliant Resources common stock owned by us. The Interim Financial Statements have been prepared to reflect the effect of the Reliant Resources Distribution as described above on our Interim Financial Statements. The Interim Financial Statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations. We recorded after-tax income from discontinued operations of \$148 million and \$34 million for the three months and six months ended June 30, 2002, respectively, related to the operations of Reliant Resources.

We are negotiating to sell a component of our Other Operations business segment, CEMS, that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. We recorded an after-tax loss in discontinued operations of \$16 million (\$25 million pre-tax) during the three months ended June 30, 2003 to record the impairment of the long-lived asset

based on the impending sale and to record one-time termination benefits. The Interim Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data -- Certain Factors Affecting Future Earnings" in Exhibit 99.1 to the Current Report on Form 8-K dated May 12, 2003 (May 12 Form 8-K), and "Risk Factors" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

In addition to these factors, increased borrowing costs and increased pension expense are expected to negatively impact our earnings in 2003. Additionally, please read the discussion of the South Texas Project Unit 1 and W.A. Parish facility forced outages under "-- Overview -- Recent Developments."

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the six months ended June 30, 2002 and 2003:

	SIX MONTHS ENDED JUNE 30,	
	2002	2003
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities.....	\$ 83	\$ 244
Investing activities.....	(425)	(301)
Financing activities.....	572	(211)

Net cash provided by operating activities during the six months ended June 30, 2003 increased \$161 million compared to the same period in 2002 primarily due to decreases in accounts receivable and accrued unbilled revenues and accrued taxes and interest, partially offset by recovery of fuel by our Electric Transmission & Distribution business segment in 2002.

Net cash used in investing activities decreased \$124 million during the six months ended June 30, 2003 compared to the same period in 2002 primarily due to lower capital expenditures in 2003 related to our Electric Transmission & Distribution and Electric Generation business segments.

Net cash used in financing activities increased \$783 million during the six months ended June 30, 2003 compared to the same period in 2002 primarily due to a decrease in short-term borrowings, partially offset by an increase in net proceeds from long-term debt.

FUTURE SOURCES AND USES OF CASH FLOWS

The 1935 Act regulates our financing ability, as more fully described in "-- Capitalization" below.

Long-Term Debt. Our long-term debt consists of our obligations and obligations of our subsidiaries, including transition bonds issued by an indirect wholly owned subsidiary (transition bonds).

In 2003, we and our subsidiaries completed several capital market and bank financing transactions which, collectively, converted a significant amount of our interest payment obligations from floating rates to fixed rates and reduced current maturities of long-term debt (excluding maturities of transition bonds issued by a special purpose entity) from \$792 million at December 31, 2002 to \$269 million at June 30, 2003. Certain of the capital market transactions enabled us to permanently reduce the term loan due 2005 under our bank facility, which currently bears interest at LIBOR plus 450 basis points, from \$2.35 billion to \$1.35 billion, to eliminate an obligation under our bank facility to issue the lenders warrants for our common stock and to eliminate a limitation on common stock dividends that would have become applicable in 2004. Repayments of the term loan permanently reduce the size of our bank

facility, whereas repayments of the revolver component of our bank facility do not. Our 2003 capital market transactions included the following:

- In May, we issued \$575 million aggregate principal amount of 3.75% convertible senior notes due 2023, \$200 million aggregate principal amount of 5.875% senior notes due 2008 and \$200 million aggregate principal amount of 6.85% senior notes due 2015. In addition, in April, we remarketed \$175 million aggregate principal amount of pollution control tax-exempt bonds that we had owned since the fourth quarter of 2002, consisting of \$100 million bearing interest at 7.75% due 2018 and \$75 million bearing interest at 8% due 2029. Proceeds from these financings were used to repay portions of our borrowings under our bank facility, including a \$954 million permanent reduction in our term loan due in 2005. In July, we remarketed \$151 million aggregate principal amount of insurance-backed pollution control bonds due 2015, reducing the interest rate from 5.8% to 4%.
- In March and May, CenterPoint Houston issued \$962.3 million aggregate principal amount of its general mortgage bonds, consisting of \$450 million bearing interest at 5.70% due 2013, \$312.3 million bearing interest at 6.95% due 2033 and \$200 million bearing interest at 5.60% due 2023. Proceeds were used by CenterPoint Houston to redeem \$512.3 million aggregate principal amount of its first mortgage bonds (\$250 million at 7.75% due 2023, \$62.3 million at 8.75% due 2022 and \$200 million at 7.5% due 2023) and to repay \$429 million of intercompany notes payable to us and bearing interest at a weighted average rate of 6.11%. We used proceeds from the intercompany note repayment to repay \$150 million of 6.5% medium term notes due in April 2003, \$229 million of revolving credit borrowings under our bank facility and \$50 million of the term loan under our bank facility.
- In March and April, CERC issued \$762 million aggregate principal amount of its 7.875% senior notes due 2013, the proceeds from which were used to refinance \$360 million aggregate principal amount of CERC's \$500 million aggregate principal amount of 6% Term Enhanced ReMarketable Securities 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 CERC's \$350 million credit facility having a termination date of March 31, 2003. CERC replaced the matured credit facility with a new \$200 million revolving credit facility that matures in March 2004.

We have \$840 million of outstanding 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) that may be exchanged for cash at any time. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL Time Warner common stock (AOL TW Common). There are 1.5 reference shares of AOL TW Common for each of the 17.2 million ZENS units originally issued (of which approximately 16% were exchanged for cash of approximately \$45 million in 2002). The exchange market value is calculated using the average closing price per share of AOL TW Common on the New York Stock Exchange on one or more trading days following the notice date for the exchange. One of our subsidiaries owns the reference shares of AOL TW Common and generally liquidates such holdings to the extent of ZENS exchanged. Cash proceeds from such liquidations are used to fund ZENS exchanged for cash. Although proceeds from the sale of AOL TW Common offset the cash paid on exchanges, ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW Common become current tax obligations when ZENS are exchanged and AOL TW Common is sold. There have been no ZENS exchanges in 2003.

CenterPoint Houston has outstanding approximately \$499 million aggregate principal amount of first mortgage bonds and approximately \$2.8 billion aggregate principal amount of general mortgage bonds, of which approximately \$924 million combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy. The lien of the general mortgage indenture (under which the general mortgage bonds are issued) is junior to that of the first mortgage indenture (under which the first mortgage bonds are issued). While the aggregate amount of additional general mortgage bonds and first mortgage bonds that could be issued is approximately \$680 million based on estimates of the value of CenterPoint Houston's property encumbered by the general mortgage, the cost of such property and the 70% bonding ratio contained in the general mortgage, as a result of contractual limitations on CenterPoint Houston and CenterPoint Energy expiring in November 2005, the aggregate amount of first mortgage and general mortgage bonds cannot be increased above current levels.

The Texas electric restructuring law allows the former integrated utility to recover its stranded costs in order to fully recover its generation investment in a "true-up" proceeding to be held in 2004 (2004 True-Up Proceeding). Following the unbundling of the integrated utility into its components, CenterPoint Houston remains a regulated transmission and distribution utility through which stranded investment is recovered. Since CenterPoint Houston does not own the once-regulated generating assets, it is obligated to distribute recovery of stranded investment to CenterPoint Energy, the ultimate owner of these generation assets.

The \$396 million impairment that was recorded in the first quarter of 2003 related to the partial distribution of our investment in Texas Genco. Since this amount is expected to be recovered in the 2004 True-Up Proceeding, CenterPoint Houston has recorded a regulatory asset reflecting its right to recover this amount and an associated payable to us. Any additional impairment or loss that CenterPoint Energy incurs on its Texas Genco investment that CenterPoint Houston expects to recover as stranded investment will be recorded in the same manner.

One of our indirect finance subsidiaries, CenterPoint Energy Transition Bond Company, LLC, has \$729 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the Texas electric restructuring law. Classes of the transition bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015 and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. The transition bonds are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have recourse only to the assets or revenues of the transition bond company, and our other creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. CenterPoint Houston, the transition bond company's direct parent company, has no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between CenterPoint Houston and the transition bond company and in an intercreditor agreement among CenterPoint Houston, the transition bond company and other parties.

Short-Term Debt and Receivables Facility. CERC's revolver and receivables facility are scheduled to terminate on the dates indicated. Please read Note 9(c) to our Interim Financial Statements regarding CERC's receivables facility.

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

Rates for borrowings under CERC Corp.'s 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 the CERC 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 CERC were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by CERC.

On June 30, 2003, we had no temporary investments.

Refunds to CenterPoint Houston Customers. An order issued by the Texas Utility Commission on October 3, 2001 established the transmission and distribution rates that became effective in January 2002. The Texas Utility

Commission determined that CenterPoint Houston had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets (an amount equal to earnings above a stated overall rate of return on rate base that was used to recover our investment in generation assets) as provided under the 1998 transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston was required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the October 3, 2001 order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation and in January 2002 CenterPoint Houston began refunding excess mitigation credits, which are to be refunded over a seven-year period. The annual refund of excess mitigation credits is approximately \$237 million. Under the Texas electric restructuring law, a final determination of these stranded costs will occur in the 2004 True-Up Proceeding. CenterPoint Houston is currently seeking authority from the Texas Utility Commission to terminate these refunds based on preliminary estimates of what that final determination will be.

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:

- approximately \$386 million of capital expenditures;
- an estimated \$126 million in refunds of excess mitigation credit described above;
- remarketing or refinancing of \$140 million of CERC Corp. debt, 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) as discussed in "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Risk" in Item 3 of this report;
- dividend payments on CenterPoint Energy common stock; and
- \$16.6 million of maturing long-term debt (excluding approximately \$12.4 million of expected repayments on transition bonds issued by a special purpose subsidiary of CenterPoint Houston).

We expect that our current liquidity, along with anticipated cash flows from operations, revolving credit borrowings and, to the extent permitted by our bank facility and the external debt agreements of our subsidiaries, proceeds from possible capital market transactions, will be sufficient to meet our cash needs for the remainder of 2003. Currently, these agreements limit application of the proceeds from capital markets transactions to the refinancing of debt existing in the fall of 2002. 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 distributions from our subsidiaries.

At June 30, 2003, CenterPoint Energy had a shelf registration statement covering 15 million shares of common stock and CERC Corp. 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:

- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings;

- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to Reliant Resources in connection with its indemnification obligations arising in connection with its separation from us;
- provisions of relevant tax and securities laws; and
- our ability to obtain approval of specific financing transactions under the 1935 Act.

We may access the bank and capital markets to refinance debt that is not scheduled to mature in the next twelve months.

Principal Factors Affecting Cash Requirements in 2004 and 2005. We anticipate selling our 81% ownership interest in Texas Genco in 2004. Should Reliant Resources decline to exercise its option to purchase our interest in Texas Genco, we will explore other alternatives to monetize Texas Genco's assets, including possible sale of our ownership interest in Texas Genco or of its individual generating assets, which may significantly affect the timing of any cash proceeds. Proceeds from that sale, plus proceeds from the securitization in 2004 or 2005 of stranded costs related to generating assets of Texas Genco and generation-related regulatory assets, are expected to aggregate in excess of \$5 billion based on the current stock price of Texas Genco and Texas Utility Commission rules.

We expect that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will issue securitization bonds to monetize and recover its stranded costs, any regulatory assets not previously securitized by the October 2001 issuance of transition bonds and, to the extent permitted by the Texas Utility Commission, the balance of the other true-up components. The issuance will be done pursuant to a financing order to be issued by the Texas Utility Commission. As with the debt of our existing transition bond company, payments on these new securitization bonds would also be made from funds obtained through non-bypassable charges assessed to retail electric providers required to take delivery service from CenterPoint Houston. The holders of the new securitization bonds would have recourse only to the assets or revenues of the issuer of the new securitization bonds, and our other creditors would not have recourse to any assets or revenues of that issuer. All or a portion of the proceeds from the issuance of securitization bonds remaining after repayment of CenterPoint Houston's \$1.3 billion collateralized term loan are expected to be utilized to retire other existing debt.

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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 senior debt of CenterPoint Energy and certain subsidiaries:

COMPANY/INSTRUMENT	MOODY'S		S&P		FITCH	
	RATING	OUTLOOK (1)	RATING	OUTLOOK (2)	RATING	OUTLOOK (3)
CenterPoint Energy Senior Unsecured Debt...	Ba1	Negative	BBB-	Stable	BBB-	Stable
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds).....	Baa2	Stable	BBB	Stable	BBB+	Stable
CERC Corp. Senior Debt.....	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. A "stable" outlook from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

- (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 and the execution of our commercial strategies.

A decline in credit ratings would increase facility fees and borrowing costs under our existing bank credit facilities. 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 facilities contain "material adverse change" clauses that could impact our ability to make new borrowings under these facilities. The "material adverse change" clauses in our bank facilities generally relate to an event, development or circumstance that has or would reasonably be expected to have a material adverse effect on (a) the business, financial condition or operations of the borrower and its subsidiaries taken as a whole, or (b) the legality, validity or enforceability of the loan documents.

The \$100 million receivables facility of CERC 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.

Each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of AOL TW Common attributable to each ZENS note. If our creditworthiness were to drop such that ZENS note holders thought our liquidity was adversely affected or the market for the ZENS notes were to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW Common that we own or from other sources. We own shares of AOL TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW Common become current tax obligations when ZENS are exchanged and AOL TW Common is sold.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who 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 require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. As of July 31, 2003, the senior unsecured debt of CERC Corp. 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. Under our bank facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding \$50 million by us or any of our significant subsidiaries will cause a default. Pursuant to our indenture dated as of May 19, 2003 with JPMorgan Chase Bank, as supplemented, a payment default by us, CERC Corp. or CenterPoint Houston 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. Our 3.75% senior convertible notes due 2023, our 5.875% senior notes due 2008 and our 6.85% senior notes due 2015 are issued under this indenture. A default by CenterPoint Energy would not trigger a default under our subsidiaries' debt instruments.

Pension Plan. As discussed in Note 11(b) of the notes to the consolidated financial statements included in Exhibit 99.2 to the May 12 Form 8-K (CenterPoint Energy Notes), which is incorporated herein by reference, we maintain a non-contributory pension plan covering substantially all employees. At December 31, 2002, the projected benefit obligation exceeded the market value of plan assets by \$496 million. We are not required to make, and do not anticipate making, any contributions to our pension plan prior to 2004. Changes in interest rates and the market values of the securities held by the plan during 2003 could materially, positively or negatively, change our underfunded status and affect the level of pension expense and required contributions in 2004 and beyond. For example, every .5% difference in our actual 2003 asset returns versus our assumed 9% long-term asset return rate would increase or decrease the underfunded status of our plans by approximately \$5 million and our 2004 pension expense by approximately \$1 million. Similarly, a .5% change in the discount rate used to value pension liabilities at December 31, 2003, could increase or decrease the underfunded status of our plans by approximately \$100 million and 2004 pension expense by approximately \$14 million. Actual investment returns and changes in the discount rate during 2003 will have no effect on our 2003 pension expense. Additionally, we expect that a separate pension plan will be established for Texas Genco in 2004. Texas Genco would receive an allocation of assets from the CenterPoint Energy pension plan pursuant to rules and regulations under the Employee Retirement Income Security Act of 1974 and record its pension obligations in accordance with SFAS No. 87, "Employer's Accounting for Pensions." It is anticipated that a plan established for Texas Genco would be underfunded and that such underfunding could be significant. Changes in interest rates and the market values of the securities held by the CenterPoint Energy pension plan during 2003 could materially, positively or negatively, change the funding status of a plan established for Texas Genco.

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

- 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;
- acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;
- increased costs related to the acquisition of gas for storage;
- increases in interest expense in connection with debt refinancings;
- various regulatory actions; and
- the ability of Reliant Resources and its subsidiaries to satisfy their obligations as the principal customers of

CenterPoint Houston and Texas Genco and in respect of its indemnity obligations to us.

Money Pool. We have a "money pool" through which our participating subsidiaries 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 expected to be met with bank loans. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and the June 2003 Financing Order. Currently, Texas Genco participates in our money pool. If Texas Genco obtains certification by the Federal Energy Regulatory Commission as an "exempt wholesale generator" (which certification we plan to seek), under the 1935 Act it will no longer be able to participate with our utility subsidiaries in the same money pool and will be required to maintain its own liquidity facility or participate in a separate money pool from the regulated utilities.

Capitalization. Factors affecting our capitalization include:

- covenants and other provisions in our and our subsidiaries' bank facilities and other borrowing agreements; and
- limitations imposed on us as a registered public utility holding company under the 1935 Act.

The collateralized term loan of CenterPoint Houston limits CenterPoint Houston's debt, excluding transition bonds, as a percentage of its total capitalization to 68%. CERC Corp.'s bank facility and its receivables facility limit CERC's debt as a percentage of its total capitalization to 60% and contain an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. CERC Corp.'s bank facility also contains a provision that could, under certain circumstances, limit the amount of dividends that could be paid by CERC Corp. Our \$2.85 billion credit agreement limits dividend payments as described above, contains a debt to EBITDA covenant, an EBITDA to interest covenant and restrictions on the use of proceeds from debt issuances and asset sales.

We are a registered public utility holding company under the 1935 Act. The 1935 Act and related rules and regulations impose a number of restrictions on our activities and those of our subsidiaries. The 1935 Act, among other things, limits our ability to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

We received an order from the SEC relating to our financing activities and those of our subsidiaries on June 30, 2003 (June 2003 Financing Order), which is effective until June 30, 2005. On August 1, 2003, the SEC issued a supplemental order (August 2003 Financing Order, and together with the June 2003 Financing Order, the Orders) permitting CenterPoint Houston to issue an additional \$250 million of debt securities. The SEC had reserved jurisdiction over this additional amount in the June 2003 Financing Order. Those amounts are included in the financing discussion below.

The Orders establish limits on the amount of external debt and equity securities that can be issued by us and certain of our subsidiaries without additional authorization and permits refinancing. Each of us and our subsidiaries is in compliance with the authorized limits. Discussed below are the incremental amounts of debt and equity that we are authorized to issue in addition to amounts outstanding at June 30, 2003. The June 2003 Financing Order also permits utilization of undrawn bank facilities at CenterPoint Energy and CERC at June 30, 2003.

- CenterPoint Energy is authorized to issue an additional aggregate \$250 million of preferred stock, preferred securities and equity-linked securities and 200 million shares of common stock;
- CenterPoint Houston is authorized to issue an additional aggregate \$500 million of debt and an aggregate \$250 million of preferred stock and preferred securities;
- CERC is authorized to issue an additional aggregate \$250 million of preferred stock and preferred securities; and
- Texas Genco is authorized to issue an aggregate \$250 million of debt.

In the June 2003 Financing Order, the SEC reserved jurisdiction over the issuance of \$478 million additional debt at CenterPoint Energy and \$500 million additional debt at CERC. Further action would be needed from the SEC for authority to issue this debt.

The June 2003 Financing Order requires that if we or any of our subsidiaries issues 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 that issuer 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.

The 1935 Act requires the payment of dividends out of current and retained earnings without specific authorization to pay dividends from other funds. The SEC has reserved jurisdiction over payment of \$500 million of dividends from CenterPoint Energy's unearned surplus or capital. Further authority would be required for authorization to make those payments. As of June 30, 2003, we had negative retained earnings. We expect to pay dividends out of current earnings. The June 2003 Financing Order requires that CenterPoint Houston, CERC and Texas Genco maintain a ratio of equity to total capitalization of 30%.

In July 2003, we requested authority from the SEC to issue debt that is

secured by Texas Genco stock in an amount of up to \$2.85 billion in connection with any extension or refinancing of our existing obligations under our bank facility. That request is pending.

Security Interests in Receivables of Reliant Resources. Pursuant to a Master Power Purchase and Sale Agreement (as amended) with a subsidiary of Reliant Resources related to ERCOT power sales, Texas Genco has been granted a security interest in accounts receivable and/or notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to \$250 million in purchase obligations.

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 critical accounting policies involve the application of accounting estimates for which a change in the estimate is inseparable from the effect of a change in accounting principle. Accordingly, these accounting policies have been reviewed and discussed with the audit committee of the board of directors.

ACCOUNTING FOR RATE REGULATION

SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those incurred costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Application of SFAS No. 71 to the electric generation portion of our business was discontinued as of June 30, 1999. Our Electric Transmission & Distribution business continues to apply SFAS No. 71 which results in our accounting for the regulatory effects of recovery of "stranded costs" and other "regulatory assets" resulting from the unbundling of the transmission and distribution business from our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Regulatory assets reflected in our Consolidated Balance Sheets aggregated \$4.0 billion and \$4.5 billion as

of December 31, 2002 and June 30, 2003, respectively. Additionally, regulatory liabilities reflected in our consolidated Balance Sheets aggregated \$1.1 billion and 0.9 billion at December 31, 2002 and June 30, 2003, respectively. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to \$2.5 billion of recoverable electric generation plant mitigation assets (stranded costs) and \$929 million of ECOM true-up as of June 30, 2003. The stranded costs are comprised of \$1.1 billion of previously recorded accelerated depreciation and \$841 million of previously redirected depreciation as well as \$396 million related to the Texas Genco distribution. These stranded costs are recoverable under the provisions of the Texas electric restructuring law. The ultimate amount of stranded cost recovery is subject to a final determination, which will occur in 2004, and is contingent upon the market value of Texas Genco. Any significant changes in our accounting estimate of stranded costs as a result of current market conditions or changes in the regulatory recovery mechanism currently in place could result in a material write-down of all or a portion of these regulatory assets.

The Texas electric restructuring law allows recovery of the difference between the prices for power sold in state mandated auctions and earlier estimates of market power prices by the Texas Utility Commission. This calculation (the ECOM Calculation) compares (1) an imputed margin that reflects the difference between actual market power prices received in the state mandated auctions, actual fuel expense and generation, and (2) the margin resulting from the Texas Utility Commission's estimates of power prices, fuel expense and generation in the ECOM model developed by the Texas Utility Commission (the ECOM Margin). The difference between those two amounts is the ECOM True-Up amount, which is the non-cash revenue related to the cost recovery.

The ECOM model from which the ECOM Margin is derived provides only annual estimates of power prices, fuel expense and generation. Accordingly, we must form our own quarterly allocation estimates during 2002-2003 for the purpose of determining ECOM True-Up revenue.

Beginning January 1, 2002, we allocated the ECOM Margin in our ECOM Calculation based on annual estimated forecasts of power prices, fuel expense and generation. In the second quarter of 2003, we began using a cumulative methodology for allocating ECOM Margin. This methodology uses revenue amounts based on the actual state mandated auction price results and actual generation for historical periods, as well as forecasted amounts for the balance of 2003, rather than forecasted amounts for the two-year period allocated on an annual basis. Changes in estimates that affect the allocation of ECOM Margin will have an effect on the amount of ECOM True-Up revenue recorded in a specific period, but will not affect the total amount of ECOM True-Up revenue recorded during the two-year period ending December 31, 2003.

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 \$11.1 billion or 56% 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. 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.

As a result of the distribution of approximately 19% of Texas Genco's common stock to our shareholders on January 6, 2003, we re-evaluated our electric generation assets for impairment as of December 31, 2002. This analysis required us to make long-term estimates of future cash receipts associated with the operation or sale of these electric generation assets and related cash outflows. These forecasts require assumptions about demand for electricity within the ERCOT market, future ERCOT market conditions, commodity prices and regulatory developments. As of December 31, 2002, no impairment had been indicated because the estimated cash flows associated with the operations of the assets exceeded their carrying value. However, a change in our estimated holding period of Texas Genco's generating assets, the effects of competition within the ERCOT market, the results of our capacity auctions, and the timing and extent of changes in commodity prices, particularly natural gas prices, could have a significant effect on our future cash flows and, therefore, affect any future determination of asset impairment.

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 would 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 ENERGY REVENUES

Revenues related to the sale and/or delivery of electricity or natural gas (energy) are generally recorded when energy is delivered to customers. However, the determination of energy 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 energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electric delivery revenue is estimated each month based on daily supply volumes, applicable rates and analyses reflecting significant historical trends and experience. 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 were \$70 million related to our Electric Transmission & Distribution business segment and \$284 million related to our Natural Gas Distribution business segment. Accrued unbilled revenues recorded in the Consolidated Balance Sheets as of June 30, 2003 were \$85 million related to our Electric Transmission & Distribution business segment and \$135 million related to our Natural Gas Distribution business segment.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, we adopted 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.

We have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the Jewett mine supplying the Limestone electric generation facility. Prior to adoption of SFAS No. 143, we had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of \$139.7 million and \$39.7 million for reclamation of the lignite at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, we reversed the \$139.7 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of \$99.1 million offset by accumulated depreciation of \$35.8 million as well as a retirement obligation of \$186.7 million. The \$16.3 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability due to regulatory requirements. We also reversed the \$39.7 million we had previously recorded for the Jewett mine reclamation and recorded a plant asset of \$1.9 million offset by accumulated depreciation of \$0.4 million as well as a retirement obligation of \$3.8 million. The \$37.4 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. We have also identified other asset retirement obligations that cannot be calculated because the assets associated with the retirement obligations have an indeterminate life.

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The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the six months ended June 30, 2003:

BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, JUNE 30, 2003
-----	-----	-----	-----	-----	-----
(IN MILLIONS)					
Nuclear decommissioning.....\$ 186.7	--	--	\$ 4.5	--	\$ 191.2
Jewett lignite mine..... 3.8	--	--	0.2	--	4.0
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\$ 190.5	--	--	\$ 4.7	--	\$ 195.2
=====	=====	=====	=====	=====	=====

The following represents the pro-forma effect on our net income for the three months and six months ended June 30, 2002, as if we had adopted SFAS No. 143 as of January 1, 2002:

<CAPTION>

	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2002
	(IN THOUSANDS)	
Income from continuing operations before cumulative effect of accounting change as reported.....	\$ 86,122	\$ 231,012
Pro-forma income from continuing operations before cumulative effect of accounting change.....	86,102	230,972
Net income as reported.....	235,645	267,250
Pro-forma net income.....	235,625	267,210
DILUTED EARNINGS PER SHARE:		
Income from continuing operations before cumulative effect of accounting change as reported.....	\$ 0.29	\$ 0.78
Pro-forma income from continuing operations before cumulative effect of accounting change.....	0.29	0.78
Net income as reported.....	0.79	0.90
Pro-forma net income.....	0.79	0.90

The following represents our asset retirement obligations on a pro-forma basis as if we had adopted SFAS No. 143 as of December 31, 2002:

	AS REPORTED	PRO-FORMA
	(IN MILLIONS)	
Nuclear decommissioning.....	\$ 139.7	\$ 186.7
Jewett lignite mine.....	39.7	3.8
Total.....	\$ 179.4	\$ 190.5

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 \$644 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. Our non-rate regulated businesses have also previously recognized removal costs as a component of depreciation expense. We reversed \$115 million in the three months ended March 31, 2003 of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was \$152 million. Excluded from the \$80 million after-tax cumulative effect of accounting change recorded for the three months ended March 31, 2003, is minority interest of \$19 million related to the Texas Genco stock not owned by us.

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 provision 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. We have reclassified the \$26 million loss on debt extinguishment related to the fourth quarter of 2002 from an extraordinary item to interest expense.

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 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 has added additional criteria which were effective on July 1, 2003 for new, acquired, or newly modified forward contracts. We engage in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state mandated Texas Utility Commission auctions or auctions mandated by an agreement with Reliant Resources. All of our contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived, the delivery location and specific delivery requirements, and pricing for each of the products. We have applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 - "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state mandated and the contractually mandated auction contracts and believe they meet the definition of capacity contracts. Accordingly, we consider these contracts as normal sales contracts rather than as derivatives. We have evaluated our forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 will not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state mandated or contractually mandated auctions, and will not have a material effect on our 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

We assess the risk of our non-trading derivatives (Energy Derivatives) using a sensitivity analysis method.

The sensitivity analysis performed on our Energy Derivatives measures the potential loss based on a hypothetical 10% movement in energy prices. A decrease of 10% in the market prices of energy commodities from their June 30, 2003 levels would have decreased the fair value of our Energy Derivatives from their levels on that date by \$55 million.

The above analysis of the Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on our physical purchases and sales of natural gas to which the hedges relate. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions.

INTEREST RATE RISK

We have outstanding long-term debt, bank loans, mandatory redeemable preferred securities of subsidiary trusts holding solely our junior subordinated debentures (Trust Preferred Securities), securities held in our nuclear decommissioning trusts, some lease obligations and our obligations under the ZENS that subject us to the risk of loss associated with movements in market interest rates. We utilize interest-rate swaps in order to hedge a portion of our floating-rate debt.

Our floating-rate obligations to third parties aggregated \$3.7 billion at June 30, 2003. If the floating rates were to increase by 10% from June 30, 2003 rates, our combined interest expense to third parties would increase by a total of \$2.5 million each month in which such increase continued.

At June 30, 2003, we had outstanding fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating \$7.3 billion in principal amount and having a fair value of \$7.8 billion. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by approximately \$422 million if interest rates were to decline by 10% from their levels at June 30, 2003. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

As discussed in Note 13(f) to the CenterPoint Energy Notes, which note is incorporated herein by reference, beginning in 2002, we have contributed \$2.9 million per year to trusts established to fund our share of the decommissioning costs for the South Texas Project. The securities held by the trusts for decommissioning costs had an estimated fair value of \$174 million as of June 30, 2003, of which approximately 40% were debt securities that subject us to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at June 30, 2003, the fair value of the fixed-rate debt securities would decrease by approximately \$1 million. Any unrealized gains or losses are accounted for as a long-term asset/liability as we will not benefit from any gains, and losses will be recovered through the rate making process. For further discussion regarding the recovery of decommissioning costs pursuant to the Texas electric restructuring law, please read Note 4(a) to the CenterPoint Energy Notes, which is incorporated herein by reference.

As discussed in Note 9(b) to the CenterPoint Energy Notes, which note is incorporated herein by reference, CERC

Corp.'s \$140 million aggregate principal amount of TERM Notes outstanding at June 30, 2003, include an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate is below 5.66%. At June 30, 2003, we could terminate the option at a cost of \$23

million. A decrease of 10% in the June 30, 2003 level of interest rates would increase the cost of termination of the option by approximately \$5 million.

As discussed in Note 7 to the CenterPoint Energy Notes, which note is incorporated herein by reference, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component. The debt component of \$105 million at June 30, 2003 is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately \$15 million if interest rates were to decline by 10% from levels at June 30, 2003. Changes in the fair value of the derivative component will be recorded in our Statements of Consolidated Income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from June 30, 2003 levels, the fair value of the derivative component would increase by approximately \$5 million, which would be recorded as a loss in our Statements of Consolidated Income.

As of June 30, 2003, we have interest rate swaps with an aggregate notional amount of \$750 million that fix the interest rate applicable to floating rate short-term debt. At June 30, 2003, the swaps relating to short-term debt could be terminated at a cost of \$10 million. These swaps do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. A decrease of 10% in the June 30, 2003 level of interest rates would increase the cost of terminating the swaps at June 30, 2003 by \$2 million.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of approximately 22 million shares of AOL TW common stock, which we hold to facilitate our ability to meet our obligations under the ZENS. Please read Note 7 to the CenterPoint Energy Notes for a discussion of the effect of adoption of SFAS No. 133 on our ZENS obligation and our historical accounting treatment of our ZENS obligation. Subsequent to adoption of SFAS No. 133, a decrease of 10% from the June 30, 2003 market value of AOL Time Warner common stock would result in a net loss of approximately \$3 million, which would be recorded as a loss in our Statements of Consolidated Income.

As discussed above under "-- Interest Rate Risk," we contribute to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of June 30, 2003. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at June 30, 2003, the resulting loss in fair value of these securities would be approximately \$10 million. Currently, the risk of an economic loss is mitigated as discussed above under "-- Interest Rate Risk."

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 CenterPoint Energy, please read Note 12 to our Interim Financial Statements, "Business -- Environmental Matters" in Item 1 of the CenterPoint Energy 10-K, "Legal Proceedings" in Item 3 of the CenterPoint Energy Form 10-K and Notes 4

and 13 to the CenterPoint Energy Notes, each of which is incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

The information set forth in Note 9(b) of the Notes to our Interim Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations of CenterPoint Energy and Subsidiaries in Item 2 of Part I of this report regarding the issuance on May 19, 2003 of \$575 million aggregate principal amount of our 3.75% convertible senior notes due 2023 is incorporated by reference herein. We have been advised by Citigroup Global Markets Inc., Banc of America Securities LLC and J.P. Morgan Securities Inc., the representatives of the initial purchasers of the notes, that the notes were issued only to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act of 1933 and outside the United States in accordance with Regulation S under the Securities Act of 1933. The notes were issued at 100% of the principal amount thereof, plus accrued interest. The initial purchasers purchased the notes from us at 97% of the principal amount thereof, plus accrued interest.

The notes are convertible into shares of our common stock at a conversion rate of 86.3558 shares per \$1,000 principal amount of notes (which is equal to a conversion price of \$11.58 per share), subject to adjustment, but only in certain specified circumstances. The notes also have a contingent interest feature requiring contingent interest to be paid to holders of the notes in certain specified circumstances.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the annual meeting of CenterPoint Energy's shareholders held on May 7, 2003, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office) were as stated below:

The following nominees for Class I directors were elected to serve a three-year term expiring 2006 (there were no broker non-votes):

	For -----	Withheld -----
Derrill Cody	253,620,181	11,996,061
David M. McClanahan	253,399,938	12,216,304

The following nominee for Class III director was elected to serve a two-year term expiring 2005 (there were no broker non-votes):

	For -----	Withheld -----
Thomas F. Madison	250,165,251	15,450,991

The following directors' terms continued after the meeting and expire when indicated:

Milton Carroll (2004),
John T. Cater (2004),
Michael E. Shannon (2004), and
O. Holcombe Crosswell (2005).

The amendment and restatement of the Director Stock Plan in the form of the CenterPoint Energy, Inc. Stock Plan for Outside Directors was approved with 233,262,994 votes for, 27,985,496 votes against, 4,367,752 abstentions and no broker non-votes.

The ratification of the appointment of Deloitte & Touche LLP as independent accountants and auditors for CenterPoint Energy for 2003 was approved with 252,436,634 votes for, 9,985,842 votes against, 3,193,766 abstentions and no broker non-votes.

The shareholder proposal requiring that all future stock option grants to senior executives be indexed to an industry peer group stock performance index was not approved with 159,981,998 votes against, 46,428,042 votes for, 5,533,887 abstentions and 53,672,315 broker non-votes.

The shareholder proposal to amend CenterPoint Energy's written equal employment opportunity policy was not approved with 124,208,128 votes against, 59,028,314 votes for, 28,707,485 abstentions and 53,672,315 broker non-votes.

ITEM 5. OTHER INFORMATION.

RISK FACTORS

PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESSES

We are a holding company that conducts all of our business operations through subsidiaries, primarily CenterPoint Houston, CERC and Texas Genco. The following summarizes the principal risk factors associated with the businesses conducted by each of these subsidiaries:

RISK FACTORS AFFECTING OUR ELECTRIC TRANSMISSION & DISTRIBUTION BUSINESS

CENTERPOINT HOUSTON MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF ITS STRANDED COSTS AND REGULATORY ASSETS RELATED TO GENERATION.

CenterPoint Houston is entitled to recover its stranded costs (the excess of regulatory net book value of generation assets, as defined by the Texas electric restructuring law, over the market value of those assets) and its regulatory assets related to generation. CenterPoint Houston expects to make a filing on March 31, 2004 in a true-up proceeding provided for by the Texas electric restructuring law. The purpose of this proceeding will be to quantify and reconcile:

- the amount of stranded costs,
- regulatory assets that were not previously recovered through the issuance of transition bonds by a subsidiary,
- differences in the prices achieved in the state mandated auctions of Texas Genco's generation capacity and Texas Utility Commission estimates,
- fuel over- or under-recovery, and
- the "price to beat" clawback.

CenterPoint Houston will be required to establish and support the amounts of these costs in order to recover them. CenterPoint Houston expects these costs to be substantial. We cannot assure you that CenterPoint Houston will be able to successfully establish and support its estimates of the value of these costs. CenterPoint Houston's \$1.3 billion collateralized term loan that matures in November 2005 is expected to be repaid or refinanced with the proceeds from the issuance of transition bonds to recover its stranded costs and the balance of its regulatory assets. If CenterPoint Houston does not receive the proceeds on or before the maturity date, its ability to repay or refinance this term loan will be adversely affected.

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The Texas Utility Commission's ruling that the true-up proceeding filing will be made on March 31, 2004 means that the calculation of the market value of a share of Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination might be more or less than the per share purchase price calculated under the option held by Reliant Resources to purchase our 81% ownership interest in Texas Genco. The purchase price under the option will be based on market prices during the 120 trading days ending on January 9, 2004, but under the filing schedule prescribed by the Texas Utility Commission, the value of that ownership interest for the stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004. If Reliant Resources exercises its option at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

CENTERPOINT HOUSTON'S RECEIVABLES ARE CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS.

CenterPoint Houston's receivables from the distribution of electricity are

collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. Currently, CenterPoint Houston does business with approximately 31 retail electric providers. Adverse economic conditions, structural problems in the new ERCOT market or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for CenterPoint Houston's services or could cause them to delay such payments. CenterPoint Houston depends on these retail electric providers to remit payments timely to it. Any delay or default in payment could adversely affect CenterPoint Houston's cash flows, financial condition and results of operations. Approximately 78% of CenterPoint Houston's \$119 million in receivables from retail electric providers at June 30, 2003 was owed by subsidiaries of Reliant Resources. CenterPoint Houston's financial condition may be adversely affected if Reliant Resources is unable to meet these obligations. Reliant Resources, through its subsidiaries, is CenterPoint Houston's largest customer. Pursuant to the Texas electric restructuring law, Reliant Resources may be obligated to make a large "price to beat" clawback payment to CenterPoint Houston in 2004. CenterPoint Houston expects the clawback, if any, to be applied against any stranded cost recovery to which CenterPoint Houston is entitled or, if no stranded costs are recoverable, to be refunded to retail electric providers.

RATE REGULATION OF CENTERPOINT HOUSTON'S BUSINESS MAY DELAY OR DENY CENTERPOINT HOUSTON'S FULL RECOVERY OF ITS COSTS.

CenterPoint Houston's rates are regulated by certain municipalities and the Texas Utility Commission based on an analysis of its invested capital and its expenses incurred in a test year. Thus, the rates CenterPoint Houston is allowed to charge may not match its expenses at any given time. While rate regulation in Texas is premised on providing a reasonable opportunity to recover reasonable and necessary operating expenses and to earn a reasonable return on its invested capital, there can be no assurance that the Texas Utility Commission will judge all of CenterPoint Houston's costs to be reasonable or necessary or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of CenterPoint Houston's costs.

DISRUPTIONS AT POWER GENERATION FACILITIES OWNED BY THIRD PARTIES COULD INTERRUPT CENTERPOINT HOUSTON'S SALES OF TRANSMISSION AND DISTRIBUTION SERVICES.

CenterPoint Houston depends on power generation facilities owned by third parties to provide retail electric providers with electric power which it transmits and distributes. CenterPoint Houston does not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, CenterPoint Houston's services may be interrupted, and its results of operations, financial condition and cash flows may be adversely affected.

CENTERPOINT HOUSTON'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of CenterPoint Houston's revenues is derived from rates that it collects from each retail electric provider based on the amount of electricity it distributes on behalf of each retail electric provider. Thus, CenterPoint Houston's revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

RISK FACTORS AFFECTING OUR ELECTRIC GENERATION BUSINESS

TEXAS GENCO'S REVENUES AND RESULTS OF OPERATIONS ARE IMPACTED BY MARKET RISKS THAT ARE BEYOND ITS CONTROL.

Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. The ERCOT market consists of the majority of the population centers in the State of Texas and represents approximately 85% of the demand for power in the state. Under the Texas electric restructuring law, Texas Genco and other power generators in Texas are not subject to traditional cost-based regulation and, therefore, may sell electric generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. As a result, Texas Genco is not guaranteed any rate of return on its capital investments through mandated rates, and its revenues and results of operations depend, in large part, upon prevailing market prices for electricity

in the ERCOT market. Market prices for electricity, generation capacity, energy and ancillary services may fluctuate substantially. Texas Genco's gross margins are primarily derived from the sale of capacity entitlements associated with its large, solid fuel base-load generating units, including its coal and lignite fueled generating stations and the South Texas Project. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for Texas Genco's base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. However, the market price for power in the ERCOT market is directly affected by the price of natural gas. Because natural gas is the marginal fuel for facilities serving the ERCOT market during most hours, its price has a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to Texas Genco's solid fuel-fired base-load capacity generally rises and falls with natural gas prices.

Market prices in the ERCOT market may also fluctuate substantially due to other factors. Such fluctuations may occur over relatively short periods of time. Volatility in market prices may result from:

- oversupply or undersupply of generation capacity,
- power transmission or fuel transportation constraints or inefficiencies,
- weather conditions,
- seasonality,
- availability and market prices for natural gas, crude oil and refined products, coal, enriched uranium and uranium fuels,
- changes in electricity usage,
- additional supplies of electricity from existing competitors or new market entrants as a result of the development of new generation facilities or additional transmission capacity,
- illiquidity in the ERCOT market,
- availability of competitively priced alternative energy sources,
- natural disasters, wars, embargoes, terrorist attacks and other catastrophic events, and
- federal and state energy and environmental regulation and legislation.

THERE IS CURRENTLY A SURPLUS OF GENERATING CAPACITY IN THE ERCOT MARKET AND WE EXPECT THE MARKET FOR WHOLESALE POWER TO BE HIGHLY COMPETITIVE.

The amount by which power generating capacity exceeded peak demand (reserve margin) in the ERCOT market has exceeded 20% since 2001, and the Texas Utility Commission and the ERCOT Independent System Operator (ISO) have forecasted the reserve margin for 2003 to continue to exceed 20%. The commencement of commercial operation of new facilities in the ERCOT market will increase the competitiveness of the wholesale

power market, which could have a material adverse effect on Texas Genco's results of operations, financial condition, cash flows and the market value of Texas Genco's assets.

Texas Genco's competitors include generation companies affiliated with Texas-based utilities, independent power producers, municipal and co-operative generators and wholesale power marketers. The unbundling of vertically integrated utilities into separate generation, transmission and distribution, and retail businesses pursuant to the Texas electric restructuring law could result in a significant number of additional competitors participating in the ERCOT market. Some of Texas Genco's competitors may have greater financial resources, lower cost structures, more effective risk management policies and procedures, greater ability to incur losses, greater potential for profitability from ancillary services, and greater flexibility in the timing of their sale of generating capacity and ancillary services than Texas Genco does.

TEXAS GENCO IS SUBJECT TO OPERATIONAL AND MARKET RISKS ASSOCIATED WITH ITS CAPACITY AUCTIONS.

Texas Genco is obligated to sell substantially all of its available capacity and related ancillary services through 2003 pursuant to capacity auctions. In these auctions, Texas Genco sells firm entitlements on a forward basis to capacity and ancillary services dispatched within specified operational constraints. Although Texas Genco has reserved a portion of its aggregate net generation capacity from its capacity auctions for planned or forced outages at its facilities, unanticipated plant outages or other problems with its generation facilities could result in its firm capacity and ancillary services commitments exceeding its available generation capacity. As a result, Texas Genco could be required to obtain replacement power from third parties in the open market to satisfy its firm commitments that could result in significant additional costs. In addition, an unexpected outage at one of Texas Genco's lower cost facilities could require it to run one of its higher cost plants in order to satisfy its obligations even though the energy payments for the dispatched power are based on the cost at the lower-cost facility.

The mechanics, regulations and agreements governing Texas Genco's capacity auctions are complex. The state mandated auctions require, among other things, Texas Genco's capacity entitlements to be sold in pre-determined amounts. The characteristics of the capacity entitlements Texas Genco sells in state mandated auctions are defined by rules adopted by the Texas Utility Commission and, therefore, cannot be changed to respond to market demands or operational requirements without approval by the Texas Utility Commission.

THE OPERATION OF TEXAS GENCO'S POWER GENERATION FACILITIES INVOLVES RISKS THAT COULD ADVERSELY AFFECT ITS REVENUES, COSTS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

Texas Genco is subject to various risks associated with operating its power generation facilities, any of which could adversely affect its revenues, costs, results of operations, financial condition and cash flows. These risks include:

- operating performance below expected levels of output or efficiency,
- breakdown or failure of equipment or processes,
- disruptions in the transmission of electricity,
- shortages of equipment, material or labor,
- labor disputes,
- fuel supply interruptions,
- limitations that may be imposed by regulatory requirements, including, among others, environmental standards,
- limitations imposed by the ERCOT ISO,
- violations of permit limitations,
- operator error, and

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- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences.

A significant portion of Texas Genco's facilities were constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at high efficiency and to meet regulatory requirements. This equipment is also likely to require periodic upgrading and improvement. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in increased costs of operations and reduced earnings.

TEXAS GENCO RELIES ON POWER TRANSMISSION FACILITIES THAT IT DOES NOT OWN OR CONTROL AND THAT ARE SUBJECT TO TRANSMISSION CONSTRAINTS WITHIN THE ERCOT MARKET. IF THESE FACILITIES FAIL TO PROVIDE TEXAS GENCO WITH ADEQUATE TRANSMISSION CAPACITY, IT MAY NOT BE ABLE TO DELIVER WHOLESALE ELECTRIC POWER TO ITS CUSTOMERS AND IT MAY INCUR ADDITIONAL COSTS.

Texas Genco depends on transmission and distribution facilities owned and operated by CenterPoint Houston and by others to deliver the wholesale electric power it sells from its power generation facilities to its customers, who in turn deliver power to the end users. If transmission is disrupted, or if transmission capacity infrastructure is inadequate, Texas Genco's ability to

sell and deliver wholesale electric energy may be adversely impacted.

The single control area of the ERCOT market is currently organized into four congestion zones. Transmission congestion between the zones could impair Texas Genco's ability to schedule power for transmission across zonal boundaries, which are defined by the ERCOT ISO, thereby inhibiting Texas Genco's efforts to match its facility scheduled outputs with its customer scheduled requirements. In addition, power generators participating in the ERCOT market could be liable for congestion costs associated with transferring power between zones.

TEXAS GENCO'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY IMPACTED BY A DISRUPTION OF ITS FUEL SUPPLIES.

Texas Genco relies primarily on natural gas, coal, lignite and uranium to fuel its generation facilities. Texas Genco purchases its fuel from a number of different suppliers under long-term contracts and on the spot market. Under Texas Genco's capacity auctions, it sells firm entitlements to capacity and ancillary services. Therefore, any disruption in the delivery of fuel could prevent Texas Genco from operating its facilities, or force Texas Genco to enter into alternative arrangements at higher than prevailing market prices, to meet its auction commitments, which could adversely affect its results of operations, financial condition and cash flows.

TO DATE, TEXAS GENCO HAS SOLD A SUBSTANTIAL PORTION OF ITS AUCTIONED CAPACITY ENTITLEMENTS TO SUBSIDIARIES OF RELIANT RESOURCES. ACCORDINGLY, TEXAS GENCO'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY AFFECTED IF RELIANT RESOURCES DECLINED TO PARTICIPATE IN TEXAS GENCO'S FUTURE AUCTIONS OR FAILED TO MAKE PAYMENTS WHEN DUE UNDER RELIANT RESOURCES' PURCHASED ENTITLEMENTS.

Subsidiaries of Reliant Resources purchased entitlements to 63% of Texas Genco's available 2002 capacity and through July 2003 had purchased 71% of Texas Genco's available 2003 capacity. Reliant Resources made these purchases either through the exercise of its contractual rights to purchase 50% of the entitlements Texas Genco auctions in its contractually mandated auctions or through the submission of bids. In the event Reliant Resources declined to participate in Texas Genco's future auctions or failed to make payments when due, Texas Genco's results of operations, financial condition and cash flows could be adversely affected. As of June 30, 2003, Reliant Resources' securities ratings are below investment grade. Texas Genco has been granted a security interest in accounts receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to \$250 million in purchase obligations.

TEXAS GENCO MAY INCUR SUBSTANTIAL COSTS AND LIABILITIES AS A RESULT OF ITS OWNERSHIP OF NUCLEAR FACILITIES.

Texas Genco owns a 30.8% interest in the South Texas Project, a nuclear powered generation facility. As a result, Texas Genco is subject to risks associated with the ownership and operation of nuclear facilities. These risks include:

- the potential harmful effects on the environment and human health resulting from the operation of nuclear

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facilities and the storage, handling and disposal of radioactive materials,

- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations, and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines, shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants. In addition, although we have no reason to anticipate a serious nuclear incident at the South Texas Project, if an incident did occur, it could have a material adverse effect on Texas Genco's results of operations, financial condition and cash flows.

TEXAS GENCO'S OPERATIONS ARE SUBJECT TO EXTENSIVE REGULATION, INCLUDING ENVIRONMENTAL REGULATION. IF TEXAS GENCO FAILS TO COMPLY WITH APPLICABLE REGULATIONS OR OBTAIN OR MAINTAIN ANY NECESSARY GOVERNMENTAL PERMIT OR APPROVAL, IT MAY BE SUBJECT TO CIVIL, ADMINISTRATIVE AND/OR CRIMINAL PENALTIES THAT COULD ADVERSELY IMPACT ITS RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

Texas Genco's operations are subject to complex and stringent energy, environmental and other governmental laws and regulations. The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. These facilities are subject to regulation by the Texas Utility Commission regarding non-rate matters. Existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to Texas Genco or any of its generation facilities or future changes in laws and regulations may have a detrimental effect on its business.

Operation of the South Texas Project is subject to regulation by the NRC. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. Continuous demonstrations to the NRC that plant operations meet applicable requirements are also required. The NRC has the ultimate authority to determine whether any nuclear powered generating unit may operate.

Water for certain of Texas Genco's facilities is obtained from public water authorities. New or revised interpretations of existing agreements by those authorities or changes in price or availability of water may have a detrimental effect on Texas Genco's business.

Texas Genco's business is subject to extensive environmental regulation by federal, state and local authorities. Texas Genco is required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating its facilities. Texas Genco may incur significant additional costs to comply with these requirements. If Texas Genco fails to comply with these requirements or with any other regulatory requirements that apply to its operations, it could be subject to administrative, civil and/or criminal liability and fines, and regulatory agencies could take other actions seeking to curtail its operations. These liabilities or actions could adversely impact its results of operations, financial condition and cash flows.

Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to Texas Genco or its facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occurs, Texas Genco's business, results of operations, financial condition and cash flows could be adversely affected.

Texas Genco may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if Texas Genco fails to obtain and comply with them, it may not be able to operate its facilities or it may be required to incur additional costs. Texas Genco is generally responsible for all on-site liabilities associated with the environmental condition of its power generation facilities, regardless of when the liabilities arose and whether the liabilities are known or unknown. These liabilities may be substantial.

RISK FACTORS AFFECTING OUR NATURAL GAS DISTRIBUTION AND PIPELINES AND GATHERING BUSINESSES

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

CERC competes 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 CERC 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 CERC's 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 CERC as a result of competition may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC's two interstate pipelines and its 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 CERC's competitors could lead to lower prices, which may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC'S NATURAL GAS DISTRIBUTION BUSINESS IS SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS.

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

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

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

IF CERC FAILS TO EXTEND CONTRACTS WITH TWO OF ITS SIGNIFICANT INTERSTATE PIPELINES' CUSTOMERS, THERE COULD BE AN ADVERSE IMPACT ON ITS OPERATIONS.

Contracts with two of our interstate pipelines' significant customers, CenterPoint Energy Arkla and LaCleve 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 CERC's results of operations, financial condition and cash flows.

CERC'S INTERSTATE PIPELINES ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

CERC's 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 CERC's results of operations, financial condition and cash flows.

CERC'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of CERC's revenues are derived from natural gas sales and transportation. Thus, CERC's 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 CONSOLIDATED 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 \$11.1 billion of outstanding indebtedness and trust preferred securities, including approximately \$157 million of debt that must be refinanced in 2003. In addition, the capital constraints and other factors currently impacting 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, adversely affect our financial condition and results of operations or severely restrict or prohibit distributions from our subsidiaries. The success of our future financing efforts may depend, at least in part, on:

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

As of June 30, 2003, our CenterPoint Houston subsidiary had \$2.8 billion of general mortgage bonds outstanding. It may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Although approximately \$680 million of additional general mortgage bonds could be issued on the basis of property additions as of June 30, 2003, CenterPoint Houston has agreed under the \$1.3 billion collateralized term loan maturing in 2005 to not issue, subject to certain exceptions, any incremental secured or unsecured debt. In addition, CenterPoint Houston is contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of CenterPoint Energy and Subsidiaries -- Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- 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.

AS A HOLDING COMPANY WITH NO OPERATIONS OF OUR OWN, WE WILL DEPEND ON DISTRIBUTIONS FROM OUR SUBSIDIARIES TO MEET OUR PAYMENT OBLIGATIONS, AND PROVISIONS OF APPLICABLE LAW OR CONTRACTUAL RESTRICTIONS COULD LIMIT THE AMOUNT OF THOSE DISTRIBUTIONS.

We derive substantially all our operating income from, and hold substantially all our assets through, our subsidiaries. As a result, we will depend on distributions from our subsidiaries in order to meet our payment obligations. In general, these subsidiaries are separate and distinct legal entities and will have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In

addition, provisions of applicable law, such as those limiting the legal sources of dividends and those under the 1935 Act, limit their ability to make payments or other distributions to us, and they could agree to contractual restrictions on their ability to make distributions.

Our right to receive any assets of any subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by us.

AN INCREASE IN SHORT-TERM INTEREST RATES COULD ADVERSELY AFFECT OUR CASH FLOWS.

As of June 30, 2003, we had \$3.7 billion of outstanding floating-rate debt

owed to third parties. Because of capital constraints impacting our business at the time some of this floating-rate debt was entered into, the interest rates are substantially above our historical borrowing rates. In addition, any floating-rate debt issued by us in the future could be at interest rates substantially above our historical borrowing rates. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. Any increase in short-term interest rates would result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

OTHER RISKS

WE AND CENTERPOINT HOUSTON COULD INCUR LIABILITIES ASSOCIATED WITH BUSINESSES AND ASSETS THAT WE HAVE TRANSFERRED TO OTHERS.

Under some circumstances, we and CenterPoint Houston could incur liabilities associated with assets and businesses we and CenterPoint Houston no longer own. These assets and businesses were previously owned by Reliant Energy directly or through subsidiaries and include:

- those transferred to Reliant Resources or its subsidiaries in connection with the organization and capitalization of Reliant Resources prior to its initial public offering in 2001,
- those transferred to Texas Genco in connection with its organization and capitalization, and
- those transferred to CenterPoint Energy in connection with the Restructuring.

In connection with the organization and capitalization of Reliant Resources, Reliant Resources and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. Reliant Resources also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. The indemnity provisions were intended to place sole financial responsibility on Reliant Resources and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Reliant Resources, regardless of the time those liabilities arose. If Reliant Resources is unable to satisfy a liability that has been so assumed in circumstances in which Reliant Energy has not been released from the liability in connection with the transfer, we or CenterPoint Houston could be responsible for satisfying the liability.

Reliant Resources reported in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 that as of March 31, 2003 it had \$7.9 billion of total debt and its unsecured debt ratings are currently below investment grade. If Reliant Resources is unable to meet its obligations, it would need to consider, among various options, restructuring under the bankruptcy laws, in which event Reliant Resources might not honor its indemnification obligations and claims by Reliant Resources' creditors might be made against us as its former owner.

Reliant Energy and Reliant Resources are named as defendants in a number of lawsuits arising out of power sales in California and other West Coast markets and financial reporting matters. Although these matters relate to the business and operations of Reliant Resources, claims against Reliant Energy have been made on grounds that include the effect of Reliant Resources' financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of Reliant Resources. We or CenterPoint Houston could incur liability if claims in one or more of these lawsuits were successfully asserted against us or CenterPoint

Houston and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed with respect to those claims.

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were held by CenterPoint Houston and CenterPoint Houston was not released by third parties from these liabilities. The indemnity provisions

were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. If Texas Genco were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, CenterPoint Houston could be responsible for satisfying the liability.

IF THE ERCOT MARKET DOES NOT FUNCTION IN THE MANNER CONTEMPLATED BY THE TEXAS ELECTRIC RESTRUCTURING LAW, TEXAS GENCO'S AND CENTERPOINT HOUSTON'S BUSINESS, PROSPECTS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY IMPACTED.

The competitive electric market in Texas became fully operational in January 2002, and none of CenterPoint Houston, Texas Genco, the Texas Utility Commission, ERCOT or other market participants has any significant operating history under the market framework created by the Texas electric restructuring law. The initiatives under the Texas electric restructuring law have had a significant impact on the nature of the electric power industry in Texas and the manner in which participants in the ERCOT market conduct their business. These changes are ongoing, and we cannot predict the future development of the ERCOT market or the ultimate effect that this changing regulatory environment will have on the businesses of CenterPoint Houston or Texas Genco.

Some restructured markets in other states have experienced supply problems and extreme price volatility. If the ERCOT market does not function as intended by the Texas electric restructuring law, Texas Genco's and CenterPoint Houston's results of operations, financial condition and cash flows could be adversely affected. In addition, any market failures could lead to revisions or reinterpretations of the Texas electric restructuring law, the adoption of new laws and regulations applicable to Texas Genco or CenterPoint Houston or their respective facilities and other future changes in laws and regulations that may have a detrimental effect on Texas Genco's and CenterPoint Houston's businesses.

WE, TOGETHER WITH OUR SUBSIDIARIES, ARE SUBJECT TO REGULATION UNDER THE 1935 ACT. THE 1935 ACT AND RELATED RULES AND REGULATIONS IMPOSE A NUMBER OF RESTRICTIONS ON OUR ACTIVITIES.

We and our subsidiaries 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 current and retained earnings without prior 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.

We received an order from the SEC under the 1935 Act on June 30, 2003 relating to our 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.

Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain \$2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. Under the federal Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was \$9.3 billion as of June 30, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan. In addition, the security procedures at this facility have recently been enhanced to provide additional protection against terrorist attacks. All potential losses or liabilities associated with the South Texas Project may not be insurable, and the amount of insurance may not be sufficient to cover them. In particular, Texas Genco's insurance policies are subject to certain limits and deductibles and do not include business interruption coverage.

In common with other companies in its line of business that serve coastal regions, CenterPoint Houston does not have insurance covering its transmission and distribution system because CenterPoint Houston believes it to be cost prohibitive. If CenterPoint Houston were to sustain any loss of or damage to its transmission and distribution properties, it would be entitled to seek to recover such loss or damage through a change in its regulated rates, although there is no assurance that CenterPoint Houston ultimately would obtain any such rate recovery or that any such rate recovery would be timely granted. Therefore, we cannot assure you that CenterPoint Houston will be able to restore any loss of or damage to its transmission and distribution properties without negative impact on our results of operations, financial condition and cash flows.

CHANGES IN TECHNOLOGY MAY ADVERSELY AFFECT OUR REVENUES AND RESULTS OF OPERATIONS.

A significant portion of Texas Genco's generation facilities were constructed many years ago and rely on older technologies. Some of Texas Genco's competitors may have newer generation facilities and technologies that allow them to produce and sell power more efficiently, which could adversely affect Texas Genco's results of operations, financial condition and cash flows. In addition, research and development activities are ongoing to improve alternate technologies to produce electricity, including fuel cells, microturbines, windmills and photovoltaic (solar) cells. It is possible that advances in these or other technologies will reduce the current costs of electricity production utilizing newer facilities to a level that is below that of Texas Genco's generation facilities. If this occurs, Texas Genco's generation facilities will be less competitive and the value of its power plants could be significantly impaired. Also, electricity demand could be reduced by increased conservation efforts and advances in technology that could likewise significantly reduce the value of Texas Genco's power generation facilities.

The continuous process of technological development may result in the introduction to retail customers of economically attractive alternatives to purchasing electricity through CenterPoint Houston's distribution facilities. Manufacturers of self-generation facilities continue to develop smaller-scale, more-fuel-efficient generating units that can be cost-effective options for some retail customers with smaller electric energy requirements. Any reduction in the amount of electric energy CenterPoint Houston distributes as a result of these technologies may have an adverse impact on its results of operations, financial condition and cash flows 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 electric transmission and distribution, electric generation, 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.

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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 of CenterPoint Energy, Inc.

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1	--	Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.2	--	Articles of Amendment to Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.1.1
3.3	--	Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.4	--	Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	--	Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	--	Rights Agreement dated January 1, 2002 between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 21, 2001	1-31447	4.2
4.3.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Houston and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (1)
4.3.2	--	First Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (2)
4.3.3	--	Second Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (3)
4.3.4	--	Third Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (4)
4.3.5	--	Fourth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (5)
4.3.6	--	Fifth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (6)
4.3.7	--	Sixth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (7)
4.3.8	--	Seventh Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (8)
4.3.9	--	Eighth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4 (j) (9)
4.3.10	--	Ninth Supplemental Indenture to Exhibit 4.3.1, dated as of November 12, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4 (e) (10)
4.3.11	--	Tenth Supplemental Indenture to Exhibit 4.3.1, dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1

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EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.3.12	--	Eleventh Supplemental Indenture to Exhibit 4.3.1, dated as of May 23, 2003	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.1
4.3.13	--	Officer's Certificate dated March 18, 2003 setting forth the form, terms and provisions of the Tenth Series and Eleventh Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.2
+4.3.14	--	Registration Rights Agreement, dated as of March 18, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Tenth Series and Eleventh Series of general mortgage bonds.			
4.3.15	--	Officer's Certificate dated May 23, 2003 setting forth the form, terms and provisions of the Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.2
+4.3.16	--	Registration Rights Agreement, dated as of May 23, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Twelfth Series of general mortgage bonds			
4.4.1	--	Indenture, dated as of February 1, 1998, between RERC Corp. and Chase Bank of Texas, National Association, as Trustee	CERC's Form 8-K dated February 5, 1998	1-13265	4.1
4.4.2	--	Supplemental Indenture No. 1 to Exhibit 4.4.1, dated as of February 1, 1998, providing for the issuance of RERC Corp.'s 6 1/2% Debentures due February 1, 2008	CERC's Form 8-K dated February 5, 1998	1-13265	4.2
4.4.3	--	Supplemental Indenture No. 2 to Exhibit 4.4.1, dated as of November 1, 1998, providing for the issuance of RERC Corp.'s 6 3/8% Term Enhanced ReMarketable Securities	CERC's Form 8-K dated November 9, 1998	1-13265	4.1
4.4.4	--	Supplemental Indenture No. 3 to Exhibit 4.4.1, dated as of July 1, 2000, providing for the issuance of RERC Corp.'s 8.125% Notes due 2005	CERC's Registration Statement on Form S-4	333-49162	4.2
4.4.5	--	Supplemental Indenture No. 4 to Exhibit 4.4.1, dated as of February 15, 2001, providing for the issuance of RERC Corp.'s 7.75% Notes due 2011	CERC's Form 8-K dated February 21, 2001	1-13265	4.1
4.4.6	--	Supplemental Indenture No. 5 to Exhibit 4.4.1, dated as of March 25, 2003, providing for the issuance of CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated March 18, 2003 2003,	1-31447	4.1
4.4.7	--	Supplemental Indenture No. 6 to Exhibit 4.4.1, dated as of April 14, 2003, providing for the issuance of additional CERC Corp. 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated April 7, 2003	1-31447	4.2
+4.4.8	--	Registration Rights Agreement, dated as of March 25, 2003, among CERC and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			
+4.4.9	--	Registration Rights Agreement dated as of April 14, 2003, among CERC and the initial purchasers names therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.5.1	--	Indenture, dated as of May 19, 2003, between CenterPoint Energy and JPMorgan Chase Bank, as Trustee	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.1
4.5.2	--	Supplemental Indenture No. 1 to Exhibit 4.5.1, dated as of May 19, 2003 providing for the issuance of CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.2
4.5.3	--	Supplemental Indenture No. 2 to Exhibit 4.5.1, dated as of May 27, 2003 providing for the issuance of CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015	CenterPoint Energy's Form 8-K dated May 19, 2003 2003 providing for	1-31447	4.3
+4.5.4	--	Registration Rights Agreement, dated			

as of May 19, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 3.75% Convertible Senior Notes due 2023

+4.5.5 -- Registration Rights Agreement, dated as of May 27, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015

+10.1 -- Pledge Agreement dated as of May 28, 2003, by Utility Holding, LLC, in favor of JP Morgan Chase Bank, as administrative agent

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+31.1 -- Section 302 Certification of David M. McClanahan

+31.2 -- Section 302 Certification of Gary L. Whitlock

+32.1 -- Section 906 Certification of David M. McClanahan

+32.2 -- Section 906 Certification of Gary L. Whitlock

+99.1 -- Items incorporated by reference from the CenterPoint Energy Form 10-K: Item 1 "Business - Environmental Matters,"

Item 3 "Legal Proceedings".

+99.2 -- Items incorporated by reference from the CenterPoint Energy Current Report on Form 8-K dated May 12, 2003: Exhibit 99.1 "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data - Certain Factors Affecting Future Earnings" and the following Notes from Exhibit 99.2: Notes 3(d) (Long-Lived Assets and Intangibles), 3(e) (Regulatory Assets and Liabilities), 3(k) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Instruments), 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 9(b) (Long-term Debt), 10 (Trust Preferred Securities), 11 (Stock-Based Incentive Compensation Plans and Employee Benefit Plans) and 13 (Commitments and Contingencies).

(b) Reports on Form 8-K.

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

On April 23, 2003, we filed a Current Report on Form 8-K dated April 16, 2003, reporting the filing of a class action lawsuit in California against CenterPoint Energy, Inc. and others and the shutdown of a reactor at the South Texas Project Nuclear Generating Station.

On April 24, 2003, we filed a Current Report on Form 8-K dated April 24, 2003, in which we announced first quarter 2003 earnings.

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 of our subsidiary, CenterPoint Energy Resources Corp., which will be added to and form a single series with its 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. We also furnished under Item 9 and Item 12 of Form 8-K transcripts of the earnings conference call held on April 24, 2003.

On May 12, 2003, we filed a Current Report on Form 8-K dated May 12, 2003, to provide information giving effect to certain reclassifications within our historical consolidated financial statements, Selected Financial Data, and

Management's Discussion and Analysis of Financial Condition and Results of Operations as reported on our Annual Report on Form 10-K for the year ended December 31, 2002.

On May 16, 2003, we filed a Current Report on Form 8-K dated May 12, 2003, announcing our intent to sell \$400 million aggregate principal amount of convertible senior notes in a private offering, announcing the pricing of \$500 million of 3.75% Convertible Senior Notes due 2023 in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended, and reporting the filing of an additional class action lawsuit in California against CenterPoint Energy, Inc. and others.

On May 30, 2003, we filed a Current Report on Form 8-K dated May 30, 2003, announcing that we had permanently reduced our bank credit facility by approximately \$1 billion to \$2.846 billion, resulting in the extinguishment of the rights granted to the lenders under our credit facility to receive warrants to purchase up to 10% of our common stock. This reduction also eliminated an additional limitation on dividends that would have been applicable under the credit facility in 2004. Additionally, we reported that we had received approval from the SEC to pledge the Texas Genco Holdings, Inc. stock we own as security for the credit facility.

On June 3, 2003, we filed a Current Report on Form 8-K dated May 19, 2003, announcing the closing of \$575 million of 3.75% Convertible Senior Notes due 2023 and the pricing and closing of \$400 million aggregate principal amount of senior notes in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended. Of the \$400 million aggregate principal amount of senior notes, \$200 million, at an interest rate of 5.875 percent, will be due June 1, 2008 and the remaining \$200 million, with an interest rate of 6.85 percent, will be due on June 1, 2015.

On June 11, 2003, we filed a Current Report on Form 8-K dated June 2, 2003, to furnish information under Item 9 of that form regarding a slide presentation and information regarding our external debt balances to be presented to various members of the utility industry and the financial and investment community at the Deutsche Bank Electric Power conference.

On June 20, 2003, we filed a Current Report on Form 8-K dated May 16, 2003, announcing the pricing and closing of \$200 million aggregate principal amount of general mortgage bonds of our subsidiary, CenterPoint Energy Houston Electric, LLC, in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended. The bonds bear interest at a rate of 5.60 percent and will be due July 1, 2023.

On June 20, 2003, we filed a Current Report on Form 8-K dated June 18, 2003, announcing that the Public Utility Commission of Texas (Texas Utility Commission) ruled that the filing by our subsidiary CenterPoint Energy Houston Electric, LLC, for recovery of its stranded costs and regulatory assets as provided by the Texas electric restructuring law will be made on March 31, 2004. The law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility.

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On July 29, 2003, we filed a Current Report on Form 8-K dated July 29, 2003, in which we announced second quarter 2003 earnings.

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SIGNATURE

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, INC.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and Chief Accounting Officer

Date: August 13, 2003

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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 of CenterPoint Energy, Inc.

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1	--	Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.2	--	Articles of Amendment to Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.1.1
3.3	--	Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.4	--	Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	--	Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	--	Rights Agreement dated January 1, 2002 between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 21, 2001	1-31447	4.2
4.3.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Houston and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
4.3.2	--	First Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(2)
4.3.3	--	Second Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(3)
4.3.4	--	Third Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(4)
4.3.5	--	Fourth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(5)
4.3.6	--	Fifth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(6)
4.3.7	--	Sixth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(7)
4.3.8	--	Seventh Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(8)
4.3.9	--	Eighth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(9)
4.3.10	--	Ninth Supplemental Indenture to Exhibit 4.3.1, dated as of November	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(e)(10)

12, 2002

4.3.11	--	Tenth Supplemental Indenture to Exhibit 4.3.1, dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1
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EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.3.12	--	Eleventh Supplemental Indenture to Exhibit 4.3.1, dated as of May 23, 2003	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.1
4.3.13	--	Officer's Certificate dated March 18, 2003 setting forth the form, terms and provisions of the Tenth Series and Eleventh Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.2
+4.3.14	--	Registration Rights Agreement, dated as of March 18, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Tenth Series and Eleventh Series of general mortgage bonds.			
4.3.15	--	Officer's Certificate dated May 23, 2003 setting forth the form, terms and provisions of the Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.2
+4.3.16	--	Registration Rights Agreement, dated as of May 23, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Twelfth Series of general mortgage bonds			
4.4.1	--	Indenture, dated as of February 1, 1998, between RERC Corp. and Chase Bank of Texas, National Association, as Trustee	CERC's Form 8-K dated February 5, 1998	1-13265	4.1
4.4.2	--	Supplemental Indenture No. 1 to Exhibit 4.4.1, dated as of February 1, 1998, providing for the issuance of RERC Corp.'s 6 1/2% Debentures due February 1, 2008	CERC's Form 8-K dated February 5, 1998	1-13265	4.2
4.4.3	--	Supplemental Indenture No. 2 to Exhibit 4.4.1, dated as of November 1, 1998, providing for the issuance of RERC Corp.'s 6 3/8% Term Enhanced ReMarketable Securities	CERC's Form 8-K dated November 9, 1998	1-13265	4.1
4.4.4	--	Supplemental Indenture No. 3 to Exhibit 4.4.1, dated as of July 1, 2000, providing for the issuance of RERC Corp.'s 8.125% Notes due 2005	CERC's Registration Statement on Form S-4	333-49162	4.2
4.4.5	--	Supplemental Indenture No. 4 to Exhibit 4.4.1, dated as of February 15, 2001, providing for the issuance of RERC Corp.'s 7.75% Notes due 2011	CERC's Form 8-K dated February 21, 2001	1-13265	4.1
4.4.6	--	Supplemental Indenture No. 5 to Exhibit 4.4.1, dated as of March 25, providing for the issuance of CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated March 18, 2003 2003,	1-31447	4.1
4.4.7	--	Supplemental Indenture No. 6 to Exhibit 4.4.1, dated as of April 14, 2003, providing for the issuance of additional CERC Corp. 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated April 7, 2003	1-31447	4.2
+4.4.8	--	Registration Rights Agreement, dated as of March 25, 2003, among CERC and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			
+4.4.9	--	Registration Rights Agreement dated as of April 14, 2003, among CERC and the initial purchasers names therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			

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EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.5.1	--	Indenture, dated as of May 19, 2003, between CenterPoint Energy and JPMorgan Chase Bank, as Trustee	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.1

4.5.2	--	Supplemental Indenture No. 1 to Exhibit 4.5.1, dated as of May 19, 2003 providing for the issuance of CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4,2
4.5.3	--	Supplemental Indenture No. 2 to Exhibit 4.5.1, dated as of May 27, the issuance of CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015	CenterPoint Energy's Form 8-K dated May 19, 2003 providing for	1-31447	4,3
+4.5.4	--	Registration Rights Agreement, dated as of May 19, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 3.75% Convertible Senior Notes due 2023			
+4.5.5	--	Registration Rights Agreement, dated as of May 27, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015			
+10.1	--	Pledge Agreement dated as of May 28, 2003, by Utility Holding, LLC, in favor of JP Morgan Chase Bank, as administrative agent			
+31.1	--	Section 302 Certification of David M. McClanahan			
+31.2	--	Section 302 Certification of Gary L. Whitlock			
+32.1	--	Section 906 Certification of David M. McClanahan			
+32.2	--	Section 906 Certification of Gary L. Whitlock			
+99.1	--	Items incorporated by reference from the CenterPoint Energy Form 10-K: Item 1 "Business - Environmental Matters,"			

Item 3 "Legal Proceedings".

+99.2	--	Items incorporated by reference from the CenterPoint Energy Current Report on Form 8-K dated May 12, 2003: Exhibit 99.1 "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data - Certain Factors Affecting Future Earnings" and the following Notes from Exhibit 99.2: Notes 3(d) (Long-Lived Assets and Intangibles), 3(e) (Regulatory Assets and Liabilities), 3(k) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Instruments), 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 9(b) (Long-term Debt), 10 (Trust Preferred Securities), 11 (Stock-Based Incentive Compensation Plans and Employee Benefit Plans) and 13 (Commitments and Contingencies).			
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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into this 18th day of March, 2003 among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), Salomon Smith Barney Inc., Credit Suisse First Boston LLC and Deutsche Bank Securities Inc., as representatives (the "Representatives") of 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 13, 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 \$450,000,000 principal amount of the Company's 5.70% General Mortgage Bonds, Series J, due 2013 and an aggregate of \$312,275,000 principal amount of the Company's 6.95% General Mortgage Bonds, Series K, due 2033 (collectively, 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 general mortgage bonds 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 General Mortgage Indenture, dated as of October 10, 2002, 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.

"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

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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.

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"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:

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(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 Depositary 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

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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;

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(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

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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

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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

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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

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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;

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(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;

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(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;

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(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;

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(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

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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

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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

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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.

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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.

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

CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: 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/ HOWARD HILLER

Name: Howard Hiller
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

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

By: /s/ CHARLES W. CHIGAS

Name: Charles W. Chigas
Title: Managing Director

By: /s/ NIGEL CREE

Name: Nigel Cree
Title: Head of Syndicate, Americas

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ANNEX A

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."

ANNEX B

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."

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ANNEX C

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.

(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.

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ANNEX D

[] 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.

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ANNEX E

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 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 23rd day of May, 2003 among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc., as representatives (the "Representatives") of 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 May 16, 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 \$200,000,000 principal amount of the Company's 5.60% General Mortgage Bonds, Series L, due July 1, 2023 (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 general mortgage bonds 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 General Mortgage Indenture, dated as of October 10, 2002, 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.

"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

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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.

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"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:

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(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 Depositary 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

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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;

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(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

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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

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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

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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

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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;

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(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;

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(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;

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(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;

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(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

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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

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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

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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.

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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.

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

CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC

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/ SCOTT SANDERS

Name: Scott Sanders
Title: Director

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

By: /s/ CHARLES W. CHIGAS

Name: Charles W. Chigas
Title: Managing Director

By: /s/ NIGEL CREE

Name: Nigel Cree
Title: Managing Director

J.P. MORGAN SECURITIES INC., for itself and
as representative of the Initial Purchasers

By: /s/ CARL J. MEHLDAU JR.

Name: Carl J. Mehldau Jr.
Title: Vice President

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ANNEX A

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."

ANNEX B

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."

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ANNEX C

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.

(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.

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ANNEX D

[]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.

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ANNEX E

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 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 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.

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"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.

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"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:

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(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 Depositary 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

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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;

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(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

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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.

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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

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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,"

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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

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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;

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(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;

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(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;

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(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;

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(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

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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

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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

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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.

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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,

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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.

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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

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ANNEX A

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."

ANNEX B

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."

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ANNEX C

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.

(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.

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ANNEX D

[] 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.

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ANNEX E

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 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.

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"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

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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

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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 Depositary 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:

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(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.

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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

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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.

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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

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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);

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(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

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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;

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(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

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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;

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(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.

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(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

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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.

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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.

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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.

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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

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ANNEX A

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."

ANNEX B

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."

ANNEX C

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.

(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.

ANNEX D

[] 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.

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ANNEX E

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 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.

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into this 19th day of May, 2003 among CenterPoint Energy, Inc., a Texas corporation (the "Company"), Citigroup Global Markets Inc, Banc of America Securities LLC and J.P. Morgan Securities Inc., as representatives (the "Representatives") of 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 May 13, 2003, among the Company and the Representatives on behalf of the Initial Purchasers (the "Purchase Agreement"), which provides for the sale by the Company to the Initial Purchasers of an aggregate of \$500,000,000 principal amount of the Company's 3.75% Convertible Senior Notes due 2023 (the "Firm Notes") and the granting by the Company to the Initial Purchasers of the option to purchase \$75,000,000 additional principal amount of such Convertible Senior Notes (the "Option Notes" and, together with the Firm Notes, the "Notes"). The Notes are convertible into shares of Common Stock, par value \$0.01 per share of the Company at the initial conversion price set forth in the Offering Memorandum dated May 13, 2003, subject to adjustment in accordance with the Indenture (as defined below). 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. Capitalized terms used herein without definition shall have their respective meanings set forth in the Purchase Agreement. 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.

"Applicable Conversion Price" shall mean, as of any date of determination, \$1,000 principal amount of Notes as of such date of determination divided by the Conversion Rate in effect as of such date of determination or, if no Notes are then outstanding, the Conversion Rate that would be in effect were Notes then outstanding.

"Additional Amounts" shall have the meaning set forth in Section 2.4(A) hereof.

"Additional Amounts Payment Date" shall have the meaning set forth in Section 2.4(B) hereof.

"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.

"Closing Date" shall mean the later of (a) the date on which the Firm Notes are issued and (b) the date on which the Option Notes are issued.

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

"Conversion Rate" shall have the meaning assigned to such term in the Indenture.

"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.

"Firm Closing Date" shall mean the date on which the Firm Notes are issued.

"Firm Notes" shall have the meaning set forth in the preamble.

"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.

"Indenture" shall mean the Indenture, dated as of May 19, 2003 between the Company and JPMorgan Chase Bank, as trustee, as supplemented by a Supplemental Indenture No. 1, dated as of May 19, 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, on any date, Holders of a majority of the outstanding Shares constituting Registrable Securities; 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 or other obligor shall be disregarded in determining whether such consent or approval was given by the Holders of such required percentage amount. For the purposes of this definition, Holders of Notes constituting Registrable Securities shall be deemed to be Holders of the number of Shares into which such Notes are or would be convertible as of such date.

"NASD" shall mean the National Association of Securities Dealers Inc.

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

"Notice and Questionnaire" shall mean a written notice delivered to the Company substantially in the form attached as Appendix I to the Offering Memorandum.

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"Notice Holder" shall mean, on any date, any Holder that has delivered a Notice and Questionnaire to the Company on or prior to such date.

"Option Notes" shall have the meaning set forth in the preamble.

"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 Shelf 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 Shelf 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 Shelf 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, or (iii) such Securities shall have ceased to be outstanding.

"Registration Default" shall have the meaning set forth in

Section 2.4(A) hereof.

"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 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 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 Shelf 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

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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 Shelf 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.

"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 mean collectively the Notes and the Shares.

"Shares" shall mean the shares of common stock of the Company, par value \$0.01 per share, into which the Notes are convertible or that have been issued upon any conversion of the Notes into common stock of the Company.

"Shelf Registration" shall mean a registration effected pursuant to Section 2.1 hereof.

"Shelf Registration Statement" shall mean a "shelf" registration statement of the Company pursuant to the provisions of Section 2.1 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 Shelf Registration.

(A) The Company agrees to file under the 1933 Act as promptly as practicable but in any event within 180 days after the Firm Closing Date a Shelf Registration Statement providing for the registration of, and the sale on a continuous or delayed basis by the Holders of, all of the Registrable Securities, pursuant to Rule 415

under the 1933 Act or any similar rule that may be adopted by the SEC. The Company agrees to use its reasonable commercial efforts to cause the Shelf Registration Statement to become or be declared effective within 270 days after the Firm Closing Date and to keep such Shelf Registration Statement continuously effective until the earliest of (i) the date on which all Registrable Securities covered by the Shelf Registration Statement have been sold pursuant to such Shelf Registration Statement, (ii) the date on which all Registrable Securities have been sold pursuant to Rule 144 under the 1933 Act, (iii) such time as there are no longer any Registrable Securities outstanding, and (iv) the second anniversary of the Closing Date (plus, in each case, the number of days in any

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Suspension Period); 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 Additional Amounts shall accrue as set forth in Section 2.4(A)(v) hereof) and (ii) the Company promptly thereafter complies with the requirements of Section 3(K) 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.

(B) Each Holder of Registrable Securities agrees that if such Holder wishes to sell Registrable Securities pursuant to the Shelf Registration Statement and related Prospectus, it will do so only in accordance with this Section 2.1(B) and the last paragraph of Section 3. To be named a selling holder in the Shelf Registration Statement when it first becomes effective, Holders must deliver a Notice and Questionnaire to the Company at least five (5) Business Days prior to the effectiveness of the Shelf Registration Statement. From and after the date the Shelf Registration Statement is declared effective, the Company shall, as promptly as is practicable after the date a Notice and Questionnaire is delivered, and in any event within five (5) Business Days after such date, (i) if required by applicable law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related Prospectus or an amendment or supplement to any document incorporated therein by reference or file any other required document so that the Holder delivering such Notice and Questionnaire is named as a selling holder in the Shelf Registration Statement and the related Prospectus and so that such Holder is permitted to deliver such Prospectus to purchasers of the Registrable Securities in accordance with applicable law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use commercially reasonable efforts to cause such post-effective amendment to be declared effective under the Act as promptly as is practicable; (ii) provide such Holder copies of any documents filed pursuant to Section 2.1(B)(i) hereof; and (iii) notify such Holder as

promptly as practicable after the

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effectiveness under the Act of any post-effective amendment filed pursuant to Section 2.1(B)(i) hereof; provided, that if such Notice and Questionnaire is delivered during a Suspension Period, the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of the Suspension Period. Notwithstanding anything contained herein to the contrary, the Company shall be under no obligation to name any Holder that is not a Notice Holder as a selling holder in the Shelf Registration Statement or related Prospectus; provided, however, that any Holder that becomes a Notice Holder pursuant to the provisions of this Section 2.1(B) (whether or not such Holder was a Notice Holder at the time the Shelf Registration Statement was declared effective) shall be named as a selling holder in the Shelf Registration Statement or related Prospectus in accordance with the requirements of this Section 2.1(B).

(C) 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.

2.2 Expenses. The Company shall pay all Registration Expenses in connection with the registration pursuant to Section 2.1 hereof and the performance of its obligations under Sections 2.1 and 3 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.

2.3 Effectiveness.

(A) The Company will be deemed not to have used its reasonable commercial efforts to cause the Shelf Registration Statement 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 Section 2.1(A) hereof) which omission would, result in any such Shelf Registration Statement not being declared effective or in the Holders of Registrable Securities covered thereby not being able to 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) A Shelf Registration Statement pursuant to Section 2.1 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 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 Shelf 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 Shelf Registration Statement may legally resume.

2.4 Interest.

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(A) If any of the following events (any such event a "Registration Default") shall occur, then additional amounts (the "Additional Amounts") shall become payable to Holders in respect of the Securities as follows:

(i) if the Shelf Registration Statement is not filed with the SEC within 180 days following the Firm Closing Date, then commencing on the 181st day after the Firm Closing

Date, Additional Amounts shall accrue on the principal amount of the outstanding Notes that are Registrable Securities and on the Applicable Conversion Price of any outstanding Shares that are Registrable Securities at a rate of 0.25% per annum for the first 90 days following such 181st day and at a rate of 0.50% per annum thereafter; or

(ii) if the Shelf Registration Statement is not declared effective by the SEC within 270 days following the Firm Closing Date, then commencing on the 271st day after the Firm Closing Date, Additional Amounts shall accrue on the principal amount of the outstanding Notes that are Registrable Securities and on the Applicable Conversion Price of any outstanding Shares that are Registrable Securities at a rate of 0.25% per annum for the first 90 days following such 271st day and at a rate of 0.50% per annum thereafter; or

(iii) if the Company has failed to perform its obligations set forth in Section 2.1(B) hereof within the time periods required therein, then commencing on the first day after the date by which the Company was required to perform such obligations, Additional Amounts shall accrue on the principal amount of the outstanding Notes that are Registrable Securities and on the Applicable Conversion Price of any outstanding Shares that are Registrable Securities at a rate of 0.25% per annum for the first 90 days and at a rate of 0.50% per annum thereafter;

(iv) if the Shelf Registration Statement has been declared effective but such Shelf Registration Statement ceases to be effective at any time (other than as specifically permitted in Section 2.1(A) hereof) without being succeeded within 30 days by an amendment thereto or an additional registration statement filed and declared effective, then commencing on the day such Shelf Registration Statement ceases to be effective, Additional Amounts shall accrue on the principal amount of the outstanding Notes that are Registrable Securities and on the Applicable Conversion Price of any outstanding Shares that are Registrable Securities at a rate of 0.25% per annum for the first 90 days following such date on which the Shelf Registration Statement ceases to be effective and at a rate of 0.50% per annum thereafter; or

(v) if the aggregate duration of Suspension Periods in any period exceeds the number of days permitted in respect of such period pursuant to Section 2.1(A) hereof, then commencing on the day the aggregate duration of Suspension Periods in any period exceeds the number of days permitted in respect of such period, Additional Amounts shall accrue on the principal amount of the outstanding Notes that are Registrable Securities and on the Applicable

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Conversion Price of any outstanding Shares that are Registrable Securities at a rate of 0.25% per annum for the first 90 days and at a rate of 0.50% per annum thereafter;

provided, however, that the Additional Amounts on the Securities shall not exceed in the aggregate 0.50% per annum and shall not be payable under more than one clause above for any given period of time, except that if Additional Amounts would be payable under more than one clause above, but at a rate of 0.25% per annum under one clause and at a rate of 0.50% per annum under the other, then the Additional Amounts rate shall be the higher rate of 0.50% per annum; provided, further, however, that (1) upon the filing of the Shelf Registration Statement (in the case of clause (i) above), (2) upon the effectiveness of the Shelf Registration Statement (in the case of clause (ii) above), (3) upon the Company's performing its obligations set forth in Section 2.1(B) hereof (in the case of clause (iii) above), (4) upon the effectiveness of the Shelf Registration Statement which had ceased to remain effective (in the case of clause (iv) above), or (5) upon the termination of the Suspension Period that caused the limit on the

aggregate duration of Suspension Periods in a period set forth in Section 2.1(A) to be exceeded (in the case of clause (v) above), Additional Amounts on the Securities as a result of such clause, as the case may be, shall cease to accrue.

(B) Additional Amounts on the Securities, if any, will be payable in cash on May 15 and November 15 of each year (the "Additional Amounts Payment Date") to holders of record of outstanding Registrable Securities on each preceding May 1 and November 1, respectively. The date of determination of the Applicable Conversion Price of any outstanding Shares that are Registrable Securities shall be the Business Day immediately preceding the Additional Amounts Payment Date; provided that in the case of an event of the type described in Section 2.4(A) (iii) above, such Additional Amounts shall be paid only to the Holders that have delivered Notice and Questionnaires that caused the Company to incur the obligations set forth in Section 2.1(B), the non-performance of which is the basis of such Registration Default; provided, further, that any Additional Amounts accrued with respect to any Notes or portion thereof called for redemption on a redemption date or purchased on a purchase date or converted into Shares on a conversion date prior to the Registration Default shall, in any such event, be paid instead to the Holder who submitted such Notes or portion thereof for redemption, purchase or conversion on the applicable redemption date, purchase date or conversion date, as the case may be, on such date (or promptly following the conversion date, in the case of conversion), and shall continue to accrue on the Shares issuable upon conversion of any Notes to the extent any Registration Default has not yet been cured. Following the cure of all Registration Defaults requiring the payment of Additional Amounts by the Company to the Holders of Registrable Securities pursuant to Section 2.4A, the accrual of Additional Amounts will cease without in any way limiting the effect of any subsequent Registration Default requiring the payment of Additional Amounts by the Company.

The Trustee shall be entitled, on behalf of Holders of Securities, to seek any available remedy for the enforcement of this Agreement, including for the payment of any Additional Amounts. Notwithstanding the foregoing, the parties agree that the sole monetary damages

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payable for a violation of the terms of this Agreement with respect to which Additional Amounts are expressly provided shall be as set forth in this Section 2.4 in addition to any remedies available to the Holders of the Securities under the Indenture. Nothing shall preclude a Notice Holder or Holder of Registrable Securities from pursuing or obtaining specific performance or other equitable relief with respect to this Agreement.

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

(A) prepare and file with the SEC a Shelf 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) 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 Shelf Registration Statement to become effective and remain effective in accordance with Section 2 hereof;

(B) use reasonable commercial efforts to cause (i) any Shelf 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 Section 2.1(C), any Prospectus forming part of any Shelf 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 the Shelf Registration Statement as may be necessary under applicable law to keep such Shelf 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 the Shelf Registration Statement during the applicable period in accordance with the intended method or methods of distribution reasonably requested by the selling Holders thereof;

(D) (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 and as set forth in the Notices and Questionnaires, (ii) furnish to each Holder of Registrable Securities and to each underwriter of an underwritten offering of Registrable Securities, if any, without

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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 Shelf Registration Statement and each underwriter of an underwritten offering of Registrable Securities shall reasonably request by the time such Shelf 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 and, if requested by such Holder, confirm such advice in writing promptly (i) when such Shelf 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 such Shelf Registration Statement and Prospectus or for additional information after such Shelf 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 such Shelf Registration Statement or the initiation of any proceedings for that purpose, (iv) 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 Shelf Registration Statement or the related Prospectus untrue in any material respect or which requires the making of any changes in such Shelf 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, 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 the Shelf Registration Statement would be appropriate;

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(G) 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 Shelf Registration Statement and Prospectus or for additional information;

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

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

(J) 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;

(K) 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 first paragraph immediately following Section 3(T) 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 Shelf 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, 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. 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;

(L) obtain a CUSIP number for all Registrable Securities covered by the Shelf Registration Statement not later than the effective date of such Shelf Registration Statement, and provide the Trustee for the Notes and the transfer agent for the Shares with printed certificates for the Registrable Securities that are in a form eligible for deposit with the Depositary;

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(M) unless the Indenture, as it relates to the Registrable Securities 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 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;

(N) 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 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 Majority Holders 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 Shelf 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

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

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

(O) in the case of a Shelf Registration, 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, 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, counsel or accountant in connection with the Shelf 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 and (y) the Holder or Holders designated by the participating Majority Holders in connection with any nonunderwritten offering pursuant to a Shelf Registration, together with one counsel designated by and on behalf of such persons;

(P) 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

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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;

(Q) use its reasonable commercial efforts to (i) confirm that the ratings of the Notes will apply to the Notes covered by the Shelf Registration Statement, or (ii) if the Notes were not previously rated, cause the Notes covered by the Shelf Registration Statement to be rated with the appropriate rating agencies, if so requested by the Majority Holders of Securities covered by such Shelf Registration Statement, or by the managing underwriters, if any;

(R) 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;

(S) use its reasonable commercial efforts to cause the Shares to be listed on the New York Stock Exchange; and

(T) cooperate and assist in any filings required to be made with the NASD and 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).

Each Holder 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 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 will forthwith discontinue disposition of Registrable Securities pursuant to such Shelf Registration Statement or Prospectus until the receipt by such Holder of either copies of the supplemented or amended Prospectus contemplated by Section 3(K) hereof, and, if so directed by the Company, such Holder 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 may resume disposition of Registrable Securities pursuant to such Shelf 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 Shelf Registration Statement as a result of the happening of any event or the discovery of

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any facts, each of the kind described in Section 3(F)(ii), (iii) or (v) hereof, the Company shall be deemed to have used its reasonable commercial efforts to keep such Shelf 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 Shelf Registration Statement. The Company shall extend the period during which such Shelf Registration Statement shall be maintained effective or the Prospectus shall be 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 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.

Each Holder agrees, by acquisition of the Registrable Securities, that such Holder shall not be entitled to sell any of such Registrable Securities pursuant to the Shelf Registration Statement or to receive a Prospectus related thereto, unless such Holder has furnished the Company with a Notice and Questionnaire. Each Notice Holder agrees to furnish to the Company all information required to be disclosed in order to make the information previously furnished to the Company by such Holder not misleading and any other information regarding such Notice Holder and the distribution of such Registrable Securities as may be required to be disclosed in the Shelf Registration Statement under applicable law or pursuant to the SEC's comments. Each Holder further agrees not to sell any Registrable Securities pursuant to the Shelf Registration Statement

without delivering, or causing to be delivered a Prospectus to the purchaser thereof.

4. Indemnification; Contribution.

(A) The Company agrees to indemnify and hold harmless the Initial Purchasers, each Holder, each Person who participates as an underwriter (any such Person being an "Underwriter") and each Person, if any, who controls any Initial Purchaser, Holder, or Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act (collectively, the "Section 4 Person"), 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 Shelf Registration Statement (or any amendment or supplement thereto) pursuant to which Registrable Securities were registered

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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 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 Shelf 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

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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 Shelf Registration Statement (or any amendment or supplement thereto) pursuant to which 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 Registrable Securities pursuant to a Shelf 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, or controlling person and such Section 4 Person and the Company or such director, officer, 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, 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 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

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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 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 the Shelf 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 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

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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 the Majority Holders of the 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 Amounts.

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

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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 Closing Date, 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.

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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 other writings referred to herein (including the Indenture 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.

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

CENTERPOINT ENERGY, INC.

By: /s/ GARY L. WHITLOCK

Name: Gary L. Whitlock
Title: Executive Vice
President and Chief
Financial Officer

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/ SCOTT SANDERS

Name: Scott Sanders
Title: Director

BANC OF AMERICA SECURITIES, LLC, for itself and
as representative of the Initial Purchasers

By: /s/ ROBERT CRAIG

Name: Robert Craig
Title: Managing Director

J.P. MORGAN SECURITIES INC., for itself and
as representative of the Initial Purchasers

By: /s/ CHRISTOPHER LOWE

Name: Christopher Lowe
Title: Managing Director

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into this 27th day of May, 2003 among CenterPoint Energy, Inc., a Texas corporation (the "Company"), Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and Wachovia Securities, Inc., as representatives (the "Representatives") of 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 May 21, 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 \$200,000,000 principal amount of the Company's 5.875% Senior Notes due 2008 (the "2008 Securities") and an aggregate of \$200,000,000 principal amount of the Company's 6.850% Senior Notes due 2015 (the "2015 Securities" and together with the 2008 Securities, 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 May 19, 2003 between the Company and JPMorgan Chase Bank, as trustee, as supplemented by a Supplemental Indenture No. 2, dated as of May 27, 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

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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.

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"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:

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(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 Depositary 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

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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;

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(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

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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

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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

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;

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(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;

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(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;

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(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;

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(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

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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

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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

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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

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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.

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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 2008 Securities or 2015 Securities pursuant to Section 202 of the Supplemental Indenture No. 2 dated May 27, 2003, such additional 2008 Securities or 2015 Securities 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 2008 Securities or 2015 Securities 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

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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,

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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, INC.

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 a representative of the Initial Purchasers

By: /s/ SCOTT SANDERS

Name: Scott Sanders
Title: Director

DEUTSCHE BANK SECURITIES INC., for itself and
as a representative of the Initial Purchasers

By: /s/ CHARLES W. CHIGAS

Name: Charles W. Chigas
Title: Managing Director

By: /s/ BEN SMILCHENSKY

Name: Ben Smilchensky
Title: Director

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

By: /s/ KEITH MAUNEY

Name: Keith Mauney
Title: Managing Director

ANNEX A

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."

ANNEX B

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."

ANNEX C

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.

(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.

ANNEX D

[] 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.

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ANNEX E

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.

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PLEDGE AGREEMENT

made by

UTILITY HOLDING, LLC

in favor of

JPMORGAN CHASE BANK,

as Administrative Agent

Dated as of May 28, 2003

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PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated as of May 28, 2003, made by UTILITY HOLDING, LLC (the "Grantor") in favor of JPMORGAN CHASE BANK, as Administrative Agent (in such capacity, the "Administrative Agent") for the banks and other financial institutions (the "Banks") from time to time parties to the Credit Agreement, dated as of October 10, 2002 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among CENTERPOINT ENERGY, INC. (the "Borrower"), the Banks and the Administrative Agent.

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Banks have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower is a member of an affiliated group of companies that includes the Grantor;

WHEREAS, the proceeds of the extensions of credit under the Credit Agreement are used in part to enable the Borrower to make valuable transfers to the Grantor in connection with the operation of its business;

WHEREAS, the Borrower and the Grantor are engaged in related businesses, and the Grantor derives substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

WHEREAS, it is a condition precedent to the obligation of the Banks to enter into the Second Amendment, providing for the extension of the Termination Date, among other things, that the Grantor shall have executed and delivered this Agreement to the Administrative Agent for the ratable benefit of the Banks;

NOW, THEREFORE, in consideration of the premises and to induce the Administrative Agent and the Banks to enter into the Second Amendment and to induce the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement, the Grantor hereby agrees as follows:

SECTION 1. DEFINED TERMS

1.1 Definitions. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, and the term "Certificated Security" is used herein as

defined in the New York UCC.

(b) The following terms shall have the following meanings:

"Agreement": this Pledge Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Collateral": as defined in Section 2.

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"Collateral Account": any collateral account established by the Administrative Agent as provided in Section 5.2 or 5.3.

"Credit Agreement Obligations": the collective reference to the unpaid principal of and interest on the Loans and Reimbursement Obligations and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and Reimbursement Obligations and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Bank (or, in the case of any Specified Swap Agreement, any Affiliate of any Bank), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, the other Loan Documents, any Letter of Credit, any Specified Swap Agreement or any other document made, delivered or given in connection with any of the foregoing, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Banks that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

"Issuer": Texas Genco Holdings, Inc., as issuer of the Pledged Stock.

"New York UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Pledged Stock": any shares, stock certificates, options, interests or rights of any nature whatsoever in respect of the Capital Stock of the Issuer that may be held by the Grantor from time to time while this Agreement is in effect, which, as of the date hereof, consists of the shares of Capital Stock listed on Schedule 2.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(a)(64) of the New York UCC and, in any event, shall include, without limitation, all dividends or other income from the Pledged Stock, collections thereon or distributions or payments with respect thereto.

"RRI": Reliant Resources, Inc.

"RRI Option": the option relating to the Texas Genco Stock granted to RRI pursuant to the Texas Genco Option Agreement.

"Securities Act": the Securities Act of 1933, as amended.

"Texas Genco Option Agreement": the Texas Genco Option Agreement, dated as of December 31, 2000, between the Borrower and RRI, as amended, modified or supplemented on or prior to the date hereof, and, following the date hereof, from time to time in a manner consistent with Section 5.6.

1.2 Other Definitional Provisions. (a) The words "hereof," "herein", "hereto" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. GRANT OF SECURITY INTEREST

2.1 Grant of Security Interests. The Grantor hereby assigns and transfers to the Administrative Agent, and hereby grants to the Administrative Agent, for the ratable benefit of the Banks, a security interest in, all of the following property now owned or at any time hereafter acquired by the Grantor or in which the Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Credit Agreement Obligations:

(a) all Pledged Stock;

(b) all shares, stock certificates, options, interests or rights of any nature whatsoever in respect of the Capital Stock of the Issuer that may be issued or granted to the Grantor while this Agreement is in effect; and

(c) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing.

2.2 Maximum Liability.

(a) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of the Grantor hereunder and under the other Loan Documents shall in no event exceed the amount which is permitted under applicable federal and state laws relating to the insolvency of debtors.

(b) The Grantor agrees that the Credit Agreement Obligations may at any time and from time to time exceed the amount of the liability of the Grantor hereunder without impairing the Liens granted pursuant to this Section 2 or affecting the rights and remedies of the Administrative Agent or any Bank hereunder.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Banks to enter into the Second Amendment and to induce the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement, the Grantor hereby represents and warrants to the Administrative Agent and each Bank that:

3.1 Title; No Other Liens. (a) The Grantor is the record and beneficial owner of, and has good and marketable title to, the Pledged Stock pledged by it hereunder, free and clear of any and all Liens or options in favor of, or claims of any other Person, except (x) the RRI Option and (y) the security interest created by this Agreement. No financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as have been filed in favor of the Administrative Agent, for the ratable benefit of the Banks, pursuant to this Agreement or as are permitted by the Credit Agreement.

(b) The shares of the Pledged Stock pledged by the Grantor hereunder constitute all of the issued and outstanding shares of all classes of the Capital Stock of the Issuer owned by the Grantor.

(c) All the shares of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable.

3.2 Perfected First Priority Liens. The security interests granted pursuant to this Agreement (a) upon delivery in certificated form to the Administrative Agent of the Pledged Stock, together with undated stock powers

covering each certificate duly executed in blank by the Grantor and the filing of financing statements with respect to the Collateral in the State of Delaware, will constitute valid perfected security interests in all of the Collateral in favor of the Administrative Agent, for the ratable benefit of the Banks, as collateral security for the Credit Agreement Obligations, enforceable in accordance with the terms hereof against all creditors of the Grantor and, subject to Section 7.13(b) hereof, any Persons purporting to purchase any Collateral from the Grantor and (b) are prior to all other Liens (other than the RRI Option) on the Collateral in existence on the date hereof.

3.3 Jurisdiction of Organization; Chief Executive Office. On the date hereof, the Grantor's jurisdiction of organization, identification number from the jurisdiction of organization (if any), and the location of the Grantor's chief executive office or sole place of business or principal residence, as the case may be, are specified on Schedule 3. The Grantor has furnished to the Administrative Agent a certified charter, certificate of incorporation or other organization document and long-form good standing certificate as of a date which is recent to the date hereof.

SECTION 4. COVENANTS

The Grantor covenants and agrees with the Administrative Agent and the Banks that, from and after the date of this Agreement until the Credit Agreement Obligations shall have been paid in full, no Letter of Credit shall be outstanding and the Commitments shall have terminated:

4.1 Delivery of Instruments, Certificated Securities and Chattel Paper. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any Certificated Security, such Certificated Security shall be immediately delivered to the Administrative Agent, duly indorsed in a manner satisfactory to the Administrative Agent, to be held as Collateral pursuant to this Agreement.

4.2 Payment of Credit Agreement Obligations. The Grantor will pay and discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral, except that no such taxes, assessments, charges, levies or claims need be paid if the amount or validity thereof is currently being contested in good faith by appropriate proceedings, reserves in conformity with GAAP with respect thereto have been provided on the books of the Grantor and such proceedings could not reasonably be expected to result in the sale, forfeiture or loss of any material portion of the Collateral or any material interest therein.

4.3 Maintenance of Perfected Security Interest; Further Documentation. (b) The Grantor shall, subject to the rights of the Grantor under the Loan Documents to issue, sell, assign, transfer or otherwise dispose of all or any part of the Collateral, (i) not take or omit to take any action, the taking or the omission of which would result in an alteration or impairment of the security interest created by this Agreement and (ii) defend such security interest against claims and demands of all persons whomsoever. At any time and from time to time, upon the written request of the Administrative Agent and at the sole expense of the Grantor, the Grantor shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Administrative Agent reasonably may request for the purposes of obtaining or preserving the full benefits of this Agreement and of the

rights and powers herein granted, including, without limitation, (i) filing any financing or continuation statements under the Uniform Commercial Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby and (ii) taking any actions necessary to enable the Administrative Agent to obtain "control" (within the meaning of the applicable Uniform Commercial Code) with respect thereto.

4.4 Changes in Locations, Name, etc. The Grantor will not, except upon

15 days' prior written notice to the Administrative Agent and delivery to the Administrative Agent of all additional executed financing statements and other documents reasonably requested by the Administrative Agent to maintain the validity, perfection and priority of the security interests provided for herein:

(i) change its jurisdiction of organization or the location of its chief executive office or sole place of business or principal residence from that referred to in Section 3.3; or

(ii) change its name.

4.5 Notices. The Grantor will advise the Administrative Agent promptly after it becomes aware of such circumstance, in reasonable detail, of:

(a) any Lien (other than security interests created hereby or Liens permitted under the Credit Agreement) on any of the Collateral which would adversely affect the ability of the Administrative Agent to exercise any of its remedies hereunder; and

(b) the occurrence of any other event (other than any event or transaction permitted under the Credit Agreement) which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the security interests created hereby.

4.6 Collateral. (a) If the Grantor shall become entitled to receive or shall receive any certificate (including, without limitation, any certificate representing a dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights in respect of the Capital Stock of the Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any shares of the Pledged Stock, or otherwise in respect thereof, the Grantor shall accept the same as the agent of the Administrative Agent and the Banks, hold the same in trust for the Administrative Agent and the Banks and deliver the same forthwith to the Administrative Agent in the exact form received, duly indorsed by the Grantor to the Administrative Agent, if required, together with an undated stock power covering such certificate duly executed in blank by the Grantor and with, if the Administrative Agent so requests, signature guaranteed, to be held by the Administrative Agent, subject to the terms hereof, as additional collateral security for the Credit Agreement Obligations. Any sums paid upon or in respect of the Collateral upon the liquidation or dissolution of the Issuer shall be paid over to the Administrative Agent to be held by it hereunder as additional collateral security for the Credit Agreement Obligations, and in case any distribution of capital shall be made on or in respect of the Collateral or any property shall be distributed upon or with respect to the Collateral pursuant to the recapitalization or reclassification of the capital of the Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Administrative Agent, be delivered to the Administrative Agent to be held by it hereunder as additional collateral security for the Credit Agreement Obligations. If any sums of money or property so paid or distributed in respect of the Collateral shall be received by the Grantor, the Grantor shall, until such money or property is paid or delivered to the Administrative Agent, hold such money or property in trust for the Administrative Agent and the Banks, segregated from other funds of the Grantor, as additional collateral security for the Credit Agreement Obligations.

(b) Except in connection with (i) the security interests created by this Agreement, (ii) the RRI Option or (iii) any other transaction expressly permitted by the Credit Agreement, without the prior written consent of the Administrative Agent, the Borrower will not (i) vote to enable, or take any other action to permit, the Issuer to issue any Capital Stock of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any Capital Stock of any nature of the Issuer, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Collateral, (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Collateral, or any interest therein or (iv) enter into any agreement or

undertaking restricting the right or ability of the Grantor or the Administrative Agent to sell, assign or transfer any of the Collateral.

SECTION 5. REMEDIAL PROVISIONS

5.1 Collateral. (a) Unless an Event of Default shall have occurred and be continuing and the Administrative Agent shall have given notice to the Grantor of the Administrative Agent's intent to exercise its corresponding rights pursuant to Section 5.1(b), the Grantor shall be permitted to receive and use all Proceeds, to the extent permitted in the Credit Agreement, and to exercise all voting and corporate or other organizational rights with respect to the Collateral.

(b) If an Event of Default shall occur and be continuing and the Administrative Agent shall have given notice to the Grantor of its intent to exercise such rights, (i) the Administrative Agent shall have the right to receive any and all Proceeds and make application thereof to the Credit Agreement Obligations in such order as the Administrative Agent may determine, and (ii) any or all of the Collateral shall be registered in the name of the Administrative Agent or its nominee, and the Administrative Agent or its nominee may thereafter exercise (x) all voting, corporate and other rights pertaining to such Collateral at any meeting of shareholders of the Issuer or otherwise and (y) subject to Section 5.6, any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Collateral as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other organizational structure of the Issuer, or upon the exercise by the Grantor or the Administrative Agent of any right, privilege or option pertaining to such Collateral, and in connection therewith, the right to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as the Administrative Agent may determine), all without liability except to account for property actually received by it, but the Administrative Agent shall have no duty to the Grantor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(c) The Grantor hereby authorizes and instructs the Issuer to (i) comply with any instruction received by it from the Administrative Agent in writing that (x) states that an Event of Default has occurred and is continuing and (y) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from the Grantor, and (ii) following receipt of such instruction, pay any dividends or other payments with respect to the Collateral directly to the Administrative Agent.

5.2 Proceeds to be Turned Over To Administrative Agent. If an Event of Default shall occur and be continuing, all Proceeds received by the Grantor consisting of cash, checks and other near-cash items shall be held by it in trust for the Administrative Agent and the Banks, segregated from other funds of the Grantor, and shall, forthwith upon receipt by the Grantor, be turned over to the Administrative Agent in the exact form received by the Grantor (duly indorsed by the Grantor to the Administrative Agent, if required). All Proceeds received by the Administrative Agent hereunder shall be held by the Administrative Agent in a Collateral Account maintained under its sole dominion and control. All

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Proceeds while held by the Administrative Agent in a Collateral Account (or by the Grantor in trust for the Administrative Agent and the Banks) shall continue to be held as collateral security for all the Credit Agreement Obligations and shall not constitute payment thereof until applied as provided in Section 5.3.

5.3 Application of Proceeds. If an Event of Default shall have occurred and be continuing, at any time at the Administrative Agent's election, the Administrative Agent may apply all or any part of Proceeds constituting Collateral, whether or not held in any Collateral Account, in payment of the Credit Agreement Obligations in such order as the Administrative Agent may elect, and any part of such funds which the Administrative Agent elects not so to apply and deems not required as collateral security for the Credit Agreement

Obligations shall be paid over from time to time by the Administrative Agent to the Grantor or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Credit Agreement Obligations shall have been paid in full, no Letters of Credit shall be outstanding and the Commitments shall have terminated shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive the same.

5.4 Code and Other Remedies. Subject to Section 5.6, if an Event of Default shall occur and be continuing, the Administrative Agent, on behalf of the Banks, may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Credit Agreement Obligations, all rights and remedies of a secured party under the New York UCC or any other applicable law. Without limiting the generality of the foregoing, subject to Section 5.6, the Administrative Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Grantor or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Administrative Agent or any Bank or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Subject to Section 5.6, the Administrative Agent or any Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Grantor, which right or equity is hereby waived and released. The Administrative Agent shall apply the net proceeds of any action taken by it pursuant to this Section 5.4, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Administrative Agent and the Banks hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Credit Agreement Obligations, in such order as the Administrative Agent may elect, and only after such application and after the payment by the Administrative Agent of any other amount required by any provision of law, including, without limitation, Section 9-615(a)(3) of the New York UCC, need the Administrative Agent account for the surplus, if any, to the Grantor. To the extent permitted by applicable law, the Grantor waives all claims, damages and demands it may acquire against the Administrative Agent or any Bank arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

5.5 Sale of Collateral. (a) The Grantor recognizes that the Administrative Agent may be unable to effect a public sale of any or all the Pledged Stock, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree,

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among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Grantor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Administrative Agent shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit the Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so.

(b) The Grantor agrees to use its best efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all

or any portion of the Pledged Stock pursuant to this Section 5.5 valid and binding and in compliance with any and all other applicable Requirements of Law.

5.6 RRI Option. Notwithstanding anything to the contrary in this Agreement or any other Loan Document, the Administrative Agent, and any successor, transferee or assignee of the Administrative Agent, whether in connection with any foreclosure action or otherwise, shall be subject to all rights of RRI, and all restrictions relating to the Pledged Shares, set forth in the Texas Genco Option Agreement, until the expiration of the RRI Option; provided, however, that the Texas Genco Option Agreement shall not be amended in any manner that would adversely affect the Liens granted hereunder.

SECTION 6. THE ADMINISTRATIVE AGENT

6.1 Administrative Agent's Appointment as Attorney-in-Fact, etc. (a) The Grantor hereby irrevocably constitutes and appoints the Administrative Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Grantor and in the name of the Grantor or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, the Grantor hereby gives the Administrative Agent the power and right, on behalf of the Grantor, without notice to or assent by the Grantor, to do any or all of the following:

(i) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral;

(ii) execute, in connection with any sale provided for in Section 5.4 or 5.5, any indorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral; and

(iii) (1) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of the Collateral; (2) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of the Collateral; (3) defend any suit, action or proceeding brought against the Grantor with respect to the Collateral; (4) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as the Administrative Agent may deem appropriate; and (5) subject to Section 5.6, generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with the Collateral as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes, and do, at the Administrative Agent's option and the Grantor's expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve or realize upon the Collateral and the Administrative Agent's and the Banks' security interests therein and to effect the intent of this Agreement, all as fully and effectively as the Grantor might do.

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Anything in this Section 6.1(a) to the contrary notwithstanding, the Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Section 6.1(a) unless an Event of Default shall have occurred and be continuing.

(b) If the Grantor fails to perform or comply with any of its agreements contained herein, the Administrative Agent, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The expenses of the Administrative Agent incurred in connection with actions undertaken as provided in this Section 6.1, together with interest thereon at a rate per annum equal to the highest rate per annum at which interest would then be payable on any category of past due ABR Loans under the Credit Agreement, from the date of payment by the Administrative Agent to the date reimbursed by the Grantor, shall be payable by the Grantor to the

Administrative Agent on demand.

(d) The Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

6.2 Duty of Administrative Agent. The Administrative Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the New York UCC or otherwise, shall be to deal with it in the same manner as the Administrative Agent deals with similar property for its own account. Neither the Administrative Agent, any Bank nor any of their respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Grantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Administrative Agent and the Banks hereunder are solely to protect the Administrative Agent's and the Banks' interests in the Collateral and shall not impose any duty upon the Administrative Agent or any Bank to exercise any such powers. The Administrative Agent and the Banks shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to the Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

6.3 Execution of Financing Statements. Pursuant to any applicable law, the Grantor authorizes the Administrative Agent to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral without the signature of the Grantor in such form and in such offices as the Administrative Agent reasonably determines appropriate to perfect the security interests of the Administrative Agent under this Agreement. The Grantor hereby ratifies and authorizes the filing by the Administrative Agent of any financing statement reasonably necessary to perfect such security interests made prior to the date hereof.

6.4 Authority of Administrative Agent. The Grantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the Banks, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Grantor, the Administrative Agent shall be conclusively presumed to be acting as agent for the Banks with full and valid authority so to act or refrain

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from acting, and the Grantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

SECTION 7. MISCELLANEOUS

7.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 11.1 of the Credit Agreement.

7.2 Notices. All notices, requests and demands to or upon the Administrative Agent or the Grantor shall be effected in the manner provided for in Section 11.2 of the Credit Agreement; provided that any such notice, request or demand to or upon any Grantor shall be addressed to such Grantor at its notice address set forth on Schedule 1.

7.3 No Waiver by Course of Conduct; Cumulative Remedies. Neither the Administrative Agent nor any Bank shall by any act (except by a written instrument pursuant to Section 7.1), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any

Default or Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Administrative Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Administrative Agent or any Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Administrative Agent or such Bank would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

7.4 Enforcement Expenses; Indemnification. (a) The Grantor agrees to pay or reimburse each Bank and the Administrative Agent for all its costs and expenses incurred in enforcing or preserving any rights under this Agreement and the other Loan Documents to which the Grantor is a party, including, without limitation, the fees and disbursements of counsel (including the allocated fees and expenses of inhouse counsel) to each Bank and of counsel to the Administrative Agent.

(b) The Grantor agrees to pay, and to save the Administrative Agent and the Banks harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(c) The Grantor agrees to pay, and to save the Administrative Agent and the Banks harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the extent the Borrower would be required to do so pursuant to Section 11.5 of the Credit Agreement.

(d) The agreements in this Section 7.4 shall survive repayment of the Credit Agreement Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

7.5 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of the Grantor and shall inure to the benefit of the Administrative Agent and the Banks and their successors and assigns; provided that the Grantor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

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7.6 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

7.7 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.8 Section Headings. The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

7.9 Integration. This Agreement and the other Loan Documents represent the agreement of the Grantor, the Administrative Agent and the Banks with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to subject matter hereof and thereof not expressly set forth or referred to herein or in the other Loan Documents.

7.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

7.11 Submission To Jurisdiction; Waivers. The Grantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Grantor at its address referred to in Section 7.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

7.12 Acknowledgements. The Grantor hereby acknowledges that:

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(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Administrative Agent nor any Bank has any fiduciary relationship with or duty to the Grantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Grantor, on the one hand, and the Administrative Agent and Banks, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Banks or among the Grantor and the Banks.

7.13 Releases. (a) At such time as the Loans, the Reimbursement Obligations and the other Credit Agreement Obligations (other than Credit Agreement Obligations in respect of Specified Swap Agreements) shall have been paid in full, the Commitments have been terminated and no Letters of Credit shall be outstanding, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and the Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantor. At the request and sole expense of the Grantor following any such termination, the Administrative Agent shall deliver to the Grantor any Collateral held by the Administrative Agent hereunder, and execute and deliver to the Grantor such documents as the Grantor shall reasonably request to evidence such release and termination.

(b) If any of the Collateral shall be sold, transferred, assigned, exchanged or otherwise disposed of by the Grantor in connection with the RRI Option or any other transaction permitted by the Credit Agreement, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and the Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by

any party, and all rights to the Collateral shall revert to the Grantor, and the Administrative Agent, at the request and sole expense of the Grantor, shall promptly deliver to the Grantor such Collateral held by the Administrative Agent hereunder, and execute and deliver to the Grantor all releases or other documents reasonably requested by the Grantor for the release of the Liens created hereby on such Collateral.

7.14 WAIVER OF JURY TRIAL. THE GRANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

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IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

UTILITY HOLDING, LLC

By: /s/ PATRICIA F. GENZEL

Name: Patricia F. Genzel
Title: President and Secretary

Acknowledged and Agreed to
as of the date hereof:

CENTERPOINT ENERGY, INC.

By: /s/ GARY L. WHITLOCK

Name: Gary L. Whitlock
Title: Executive Vice President and
Chief Financial Officer

Schedule 1

NOTICE ADDRESS OF GRANTOR

200 West Ninth Street Plaza
Suite 411
Wilmington, Delaware 19801

Attention: Patricia F. Genzel
President and Secretary
(302) 655-8894

With a copy to: Marc Kilbride
Vice President and Treasurer
Texas Genco Holdings, Inc.
(713) 207-5782

Schedule 2

DESCRIPTION OF PLEDGED STOCK

Issuer -----	Class of Stock -----	Stock Certificate No. -----	No. of Shares -----
Texas Genco Holdings, Inc.	Common Stock	TG14348	64,764,240

Schedule 3

LOCATION OF JURISDICTION OF ORGANIZATION AND CHIEF EXECUTIVE OFFICE

Jurisdiction of Organization -----	Location of Chief Executive Office -----
Delaware	200 West Ninth Street Plaza Suite 411 Wilmington, Delaware 19801

ACKNOWLEDGEMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the Pledge Agreement dated as of May 28, 2003 (the "Agreement"), made by the Grantor for the benefit of JPMorgan Chase Bank, as Administrative Agent. The undersigned agrees for the benefit of the Administrative Agent and the Banks as follows:

1. The undersigned will be bound by the terms of the Agreement and will comply with such terms insofar as such terms are applicable to the undersigned.

2. The undersigned will notify the Administrative Agent promptly in writing of the occurrence of any of the events described in Section 4.6(a) of the Agreement.

3. The terms of Sections 5.1(c) and 5.5 of the Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it pursuant to Section 5.1(c) or 5.5 of the Agreement.

TEXAS GENCO HOLDINGS, INC.

By: /s/ MARC KILBRIDE

Name: Marc Kilbride

Title: Vice President and Treasurer

Address for Notices:

1111 Louisiana, 44th Floor
Houston, Texas 77002
Fax: 713.207.3301

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;
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, Inc.;
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, Inc. (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, Inc. (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

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 air, 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, acquire air emission allowances for operation of our facilities, and to clean up or decommission disposal or fuel storage areas and other locations as necessary.

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 upon us 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.

AIR EMISSIONS

As part of the 1990 amendments to the Federal Clean Air Act, requirements and schedules for compliance were developed for attainment of health-based standards. As part of this process, standards for NOx emissions, a product of the combustion process associated with power generation and natural gas compression, are being developed or have been finalized. The Texas Commission on Environmental Quality standards require reduction of emissions from Texas Genco's power generating units and some of our natural gas compression facilities. As of December 31, 2002, Texas Genco had invested \$551 million for NOx emission controls, and it is planning to make expenditures of at least \$131 million in the years 2003 through 2005, with possible additional expenditures after 2005. NOx control estimates for 2006 and 2007 have not been finalized. The Texas Utility Commission has initially approved Texas Genco's NOx emission reduction plan in the amount of \$699 million as the most cost-effective alternative in achieving compliance with applicable air quality standards for these generation facilities. Texas Genco is required to fund NOx reduction projects for pipelines in East Texas at a cost of \$16.2 million, which is included in the amounts described above.

The Environmental Protection Agency (EPA) has announced its determination to regulate hazardous air pollutants, including mercury, from coal-fired and oil-fired steam electric generating units under Section 112 of the Clean Air Act. The EPA plans to develop Maximum Achievable Control Technology (MACT) standards for these types of units as well as for turbines, engines and industrial boilers. The rulemaking for coal and oil-fired steam electric generating units must be completed by December 2004. Compliance with the rules will be required within three years thereafter. The MACT standards that will be applicable to the Texas Genco units cannot be predicted at this time and may adversely impact Texas Genco's operations. The rulemaking for turbines is expected to be complete in August 2003, and for engines and industrial boilers in early February 2004. Based on the rules currently proposed, management does not anticipate a materially adverse impact in interstate pipeline operations or Texas Genco's operations.

In 1998, the United States became a signatory to the United Nations Framework Convention on Climate Change (Kyoto Protocol). The Kyoto Protocol calls for developed nations to reduce their emissions of greenhouse gases. Carbon dioxide, which is a major byproduct of the combustion of fossil fuel, is considered to be a greenhouse gas. In 2002, President Bush withdrew the United States' support for the Kyoto Protocol. Since this withdrawal, Congress has explored a number of other alternatives for regulating domestic greenhouse gas emissions. If the country re-enters and the United States Senate ultimately ratifies the Kyoto Protocol and/or if the United States Congress adopts other measures for the control of greenhouse gases, any resulting limitations on power plant carbon dioxide emissions could have a material adverse impact on all fossil fuel-fired electric generating facilities, including those belonging to Texas Genco.

The EPA is conducting a nationwide investigation regarding the historical compliance of coal-fueled electric generating stations with various permitting requirements of the Clean Air Act. Specifically, the EPA and the United States Department of Justice have initiated formal enforcement actions and litigation against

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several other utility companies that operate these stations, alleging that these companies modified their facilities without proper pre-construction permit authority. To date, Texas Genco has not received requests for information related to work activities conducted at its facilities. The EPA has not filed an enforcement action or initiated litigation in connection with Texas Genco facilities. Nevertheless, any litigation, if pursued successfully by the EPA, could accelerate the timing of emission reductions currently contemplated for the facilities and result in the imposition of penalties.

In February 2001, the United States Supreme Court upheld previously adopted EPA ambient air quality standards for fine particulate matter and ozone. While attaining these new standards may ultimately require expenditures for air quality control system upgrades for our facilities, regulations establishing required controls are not expected until after 2005. Consequently, it is not possible to determine the impact on our operations at this time.

In July 2002, the White House sent to Congress a bill proposing the Clear Skies Act of 2002. The Act is designed to achieve long-term reductions of multiple pollutants produced from fossil fuel-fired power plants. The Act targets reductions averaging 70% for sulfur dioxide, NOx and mercury emissions. If approved by the United States Congress, the Act would create a gradually imposed market-based compliance program that would come into effect initially in 2008 with full compliance required by 2018. Fossil fuel-fired power plants owned by companies like Texas Genco would be affected by the adoption of this program, or other legislation currently pending in the United States Congress addressing similar issues. To comply with such programs, Texas Genco and other regulated entities could pursue a variety of strategies including the installation of pollution controls, the purchase of emission allowances or the curtailment of operations.

WATER ISSUES

In July 2000, the EPA issued final rules for the implementation of the total maximum daily load (TMDL) program. The goal of the TMDL program is to restore waters designated as impaired by identifying and restricting the loading of pollutants contributing to the impairment. While we are not aware of any of our facilities being directly affected by the current TMDL developments, there is the potential that the establishment of TMDLs may eventually result in more stringent discharge limits in our plant discharge permits. Such limits could require our facilities to install additional water treatment facilities or equipment, modify operational practices or implement other water quality improvement measures. In October 2001, the EPA signed a final rule delaying the effective date of the TMDL rule until April 30, 2003. In December 2002, the EPA published a proposed rulemaking that would withdraw the July 2000 rule.

In April 2002, the EPA proposed rules under Section 316(b) of the Clean Water Act relating to the design and operation of cooling water intake structures. This proposal is the second of three current phases of rulemaking dealing with Section 316(b) and generally would affect existing facilities that use significant quantities of cooling water. Under the amended court deadline, the EPA is to issue final rules for these Phase II facilities by February 2004.

While the requirements of the final rule cannot be predicted at this time, significant capital expenditures by Texas Genco could be required. We anticipate that substantial comments and, if necessary, litigation will be filed by affected parties to attempt to achieve an acceptable final regulation.

The EPA and the State of Texas periodically update water quality standards in response to new toxicological data and the development of enhanced analytical techniques that allow lower detection levels. The lowering of water quality criteria for parameters such as arsenic, mercury and selenium could affect generating facility discharge limitations and require our facilities to install additional treatment equipment.

LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATION

Asbestos and Other. As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos-containing materials and lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We have developed a management plan that includes proper maintenance of existing non-friable asbestos installations, and removal and abatement of asbestos containing materials where necessary because of maintenance, repairs, replacement

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or damage to the asbestos itself. We have planned for the proper management, abatement and disposal of asbestos and lead-based paint at our facilities.

We have been named, along with numerous others, as a defendant in a number of lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been third party workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by us. We anticipate that additional claims like those received may be asserted in the future, and we intend to continue our practice of vigorously contesting claims that we do not consider to have merit. Although their ultimate outcome cannot be predicted at this time, we do not believe, based on our experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

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 CERC's Minnesota service territory, two of which CERC believes it neither owned or operated, and for which CERC believes it has no liability.

At December 31, 2002, CERC 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. 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 other sites. Based on current information, the Company has 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 CERC and others. The suit alleges that CERC 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 District 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 description of certain legal and regulatory proceedings affecting us, see "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 4 and 13 to our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND SELECTED FINANCIAL DATA

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, including deregulation, re-regulation and restructuring of the electric utility industry, 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 with respect to:
 - approval of stranded costs;
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- non-payment for our services due to financial distress of our customers, including Reliant Resources;
- 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;
- 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;
- commercial bank and financial market conditions, our access to capital, the cost 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;
- 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;
 - the outcome of the pending securities lawsuits against us, Reliant Energy and Reliant Resources;
 - the outcome of the Securities and Exchange Commission investigation relating to the treatment in our consolidated financial statements of certain activities of Reliant Resources;
 - the ability of Reliant Resources to satisfy its indemnity obligations to us;
 - the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in our service territory, including the systems owned and operated by the ERCOT ISO;
 - 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."

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(D) LONG-LIVED ASSETS AND INTANGIBLES

The Company records property, plant and equipment at historical cost. The Company expenses repair and maintenance costs as incurred. Property, plant and equipment includes the following:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31,	
		2001	2002
		(IN MILLIONS)	
Electric transmission & distribution.....	5-75	\$ 6,211	\$ 5,960
Electric generation.....	5-60	9,356	9,610
Natural gas distribution.....	5-50	1,980	2,151
Pipelines and gathering.....	5-75	1,633	1,686
Other property.....	3-40	146	494
Total.....		19,326	19,901
Accumulated depreciation and amortization.....		(8,126)	(8,492)
Property, plant and equipment, net.....		\$11,200	\$11,409
		=====	=====

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which provides that goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. On January 1, 2002, the Company adopted the provisions of the statement that apply to goodwill and intangible assets acquired prior to June 30, 2001.

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With the adoption of SFAS No. 142, the Company ceased amortization of goodwill as of January 1, 2002. A reconciliation of previously reported net

income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization follows:

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
	(IN MILLIONS, EXCEPT PER SHARE)		
Reported income from continuing operations before cumulative effect of accounting change.....	\$ 243	\$ 496	\$ 366
Add: Goodwill amortization, net of tax.....	50	49	--
	-----	-----	-----
Adjusted income from continuing operations before cumulative effect of accounting change.....	\$ 293	\$ 545	\$ 366
	=====	=====	=====
Basic Earnings Per Share:			
Reported income from continuing operations before cumulative effect of accounting change.....	\$0.85	\$1.71	\$1.25
Add: Goodwill amortization, net of tax.....	0.18	0.17	--
	-----	-----	-----
Adjusted income from continuing operations before cumulative effect of accounting change.....	\$1.03	\$1.88	\$1.23
	=====	=====	=====
Diluted Earnings Per Share:			
Reported income from continuing operations before cumulative effect of accounting change.....	\$0.84	\$1.70	\$1.22
Add: Goodwill amortization, net of tax.....	0.18	0.17	--
	-----	-----	-----
Adjusted income from continuing operations before cumulative effect of accounting change.....	\$1.02	\$1.87	\$1.22
	=====	=====	=====

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

	DECEMBER 31, 2001		DECEMBER 31, 2002	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----
	(IN MILLIONS)			
Land Use Rights.....	\$59	\$ (11)	\$61	\$ (12)
Other.....	16	(2)	19	(2)
	---	---	---	---
Total.....	\$75	\$ (13)	\$80	\$ (14)
	===	===	===	===

The Company recognizes specifically identifiable intangibles, including land use rights and permits, when specific rights and contracts are acquired. The Company has no intangible assets with indefinite lives recorded as of December 31, 2002. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for 2000, 2001 and 2002 was \$1.3 million, \$1.2 million and \$1.9 million, respectively. Estimated amortization expense for the five succeeding fiscal years is as follows (in millions):

2003.....	\$ 2
2004.....	2
2005.....	2
2006.....	2
2007.....	2

Total.....	\$10
	===

Goodwill by reportable business segment is as follows (in millions):

	DECEMBER 31, 2001 AND 2002 -----
Natural Gas Distribution.....	\$1,085
Pipelines and Gathering.....	601
Other Operations.....	55

Total.....	\$1,741
	=====

The Company completed its review during the second quarter of 2002 pursuant to SFAS No. 142 for its reporting units in the Natural Gas Distribution, Pipelines and Gathering and Other Operations business segments. No impairment was indicated as a result of this assessment.

The Company periodically evaluates long-lived assets, including property, plant and equipment, goodwill and specifically identifiable intangibles, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

During the fourth quarter of 2001, the Reliant Resources Distribution was deemed to be a probable event. As Reliant Resources has an option to purchase the Company's 81% interest in its generation subsidiary, Texas Genco, in 2004 (see Note 4(b)), the Company was required to evaluate Texas Genco's assets for potential impairment in accordance with SFAS No. 121, due to an expected decrease in the number of years the Company expects to hold and operate these assets. As of December 31, 2001, no impairment had been indicated. As a result of the distribution of approximately 19% of Texas Genco's common stock to CenterPoint Energy's shareholders on January 6, 2003, the Company re-evaluated these assets for impairment as of December 31, 2002 in accordance with SFAS No. 144. As of December 31, 2002, no impairment had been indicated. The Company anticipates that future events, such as a change in the estimated holding period of Texas Genco's generation assets, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and will not be fully recoverable through the 2004 true-up proceeding calculations (see Note 4(a)).

The Texas electric restructuring law provides the Company recovery of the regulatory book value of its Texas generating assets for the amount the net regulatory book value exceeds the estimated market value. If the Company's 81% interest in Texas Genco is sold to Reliant Resources or to a third party in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset (see Note 3(e)), will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of December 31, 2002, the recorded book value was \$649 million in excess of the regulatory book value. This amount declines each year as the recorded book value is depreciated and increases by the amount of capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4.

(E) REGULATORY ASSETS AND LIABILITIES

The Company 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 Electric Transmission & Distribution business segment and the utility operations of the Natural Gas Distribution business segment and to some of the accounts of the Pipelines and Gathering business segment. For information regarding Texas Genco's discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas electric restructuring law, see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2001 and 2002:

	DECEMBER 31,	
	2001	2002
	(IN MILLIONS)	
Excess cost over market (ECOM) true-up.....	\$ --	\$ 697
Recoverable electric generation related regulatory assets, net.....	160	100
Securitized regulatory asset.....	740	706
Regulatory tax asset, net.....	111	178
Unamortized loss on reacquired debt.....	62	58
Recoverable electric generation plant mitigation.....	1,967	2,051
Excess mitigation liability.....	(1,126)	(969)
Other long-term assets/liabilities.....	4	52
	-----	-----
Total.....	\$ 1,918	\$2,873
	=====	=====

If events were to occur that would make the recovery of these assets and liabilities no longer probable, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment of the carrying costs of plant and inventory assets.

Through December 31, 2001, the Public Utility Commission of Texas (Texas Utility Commission) provided for the recovery of most of the Company's fuel and purchased power costs from customers through a fixed fuel factor included in electric rates. Included in the above table in recoverable electric generation related regulatory assets, net are \$126 million and \$66 million of net regulatory assets related to the recovery of fuel costs as of December 31, 2001 and 2002, respectively. For additional information regarding CenterPoint Houston's fuel filings, see Note 4(c).

Texas Genco sells, through auctions, entitlements to substantially all of its installed electric generation capacity, excluding reserves for planned and forced outages. In September, October and December 2001, and March, July, October and November 2002, Texas Genco conducted auctions as required by the Texas Utility Commission and by the master separation agreement with Reliant Resources.

The capacity auctions were consummated at market-based prices that are substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. The Texas electric restructuring law provides for the recovery in a "true-up" proceeding in 2004 of any difference between market power prices and the earlier estimates of those prices by the Texas Utility Commission, using the prices received in the auctions required by the Texas Utility Commission as the measure of market prices (ECOM true-up). In 2002, CenterPoint Energy recorded approximately \$697 million in non-cash revenue related to the cost recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. For additional information regarding the capacity auctions and the related true-up proceeding, see Note 4(a).

In 2001, the Company monetized \$738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas electric restructuring law. The securitized regulatory assets are being amortized ratably as transition charges are collected over the life of the outstanding transition bonds. For additional information regarding the securitization financing, see Note 4(a).

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 2000 and 2001, see Notes 3(g) and 4(a).

(K) INVESTMENT IN OTHER DEBT AND EQUITY SECURITIES

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), the Company reports "available-for-sale" securities at estimated fair value within other long-term assets in the Company's Consolidated Balance Sheets and any unrealized gain or loss, net of tax, as a separate component of shareholders' equity and accumulated other comprehensive income. In accordance with SFAS No. 115, the Company reports "trading" securities at estimated fair value in the Company's Consolidated Balance Sheets, and any unrealized holding gains and losses are recorded as other income (expense) in the Company's Statements of Consolidated Operations.

As of December 31, 2001 and 2002, the Company held debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of \$169 million and \$163 million, respectively, in the Company's Consolidated Balance Sheets in other long-term assets. Any unrealized losses or gains are accounted for as a long-term asset/liability as the Company will not benefit from any gains, and losses will be recovered through the rate-making process.

As of December 31, 2001 and 2002, the Company held an investment in AOL Time Warner Inc. (AOL TW) common stock (AOL TW Common), which was classified as a "trading" security. For information regarding the Company's investment in AOL TW Common, see Note 7.

(4) REGULATORY MATTERS

(A) TEXAS ELECTRIC RESTRUCTURING LAW AND DISCONTINUANCE OF SFAS NO. 71 FOR ELECTRIC GENERATION OPERATIONS

In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in the third quarter of 2001, and retail electric competition for all other customers began in January 2002. In preparation for competition, the Company made significant changes in the electric utility operations it conducts through its former electric utility division, Reliant Energy HL&P (now CenterPoint Houston). In addition, the Texas Utility Commission issued a number of new rules and determinations in implementing the Texas electric restructuring law.

The Texas electric restructuring law defined the process for competition and created a transition period during which most utility rates were frozen at rates not in excess of their then-current levels. The Texas electric restructuring law provided for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Texas electric restructuring law).

Unbundling. As of January 1, 2002, electric utilities in Texas such as CenterPoint Houston unbundled their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Texas electric restructuring law, the Company submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the business separation plan). The transmission and distribution business continues to be subject to cost-of-service rate regulation and is responsible for the delivery of electricity to retail customers. The Company transferred the Texas generation facilities that were formerly part of Reliant Energy HL&P (Texas generation business) to Texas Genco in connection with the Restructuring. As a result of these changes, the Company's Texas generation operations are no longer conducted as part of an integrated utility and comprise a new business segment, Electric Generation. Additionally, these operations will not be part of the Company's business if they are acquired in 2004 by Reliant Resources pursuant to an option agreement described below or they are otherwise sold.

Generation. Power generators began selling electric energy to wholesale purchasers, including retail electric providers, at unregulated prices on January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. The first auction was held in September 2001 for power delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than an affiliated or formerly affiliated retail electric provider. Texas Genco plans to auction all of its remaining capacity (less approximately 10% withheld to provide for unforeseen outages) during the time period prior to Reliant Resources' exercise of the Texas Genco Option discussed below. Pursuant to the business separation plan, Reliant Resources is entitled to purchase, at prices established in these auctions, 50% (but no less than 50%) of the remaining capacity, energy and ancillary services auctioned by Texas Genco. Sales to Reliant Resources represented approximately 66% of Texas Genco's total revenues in 2002.

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Transmission and Distribution Rates. All retail electric providers in CenterPoint Houston's service area pay the same rates and other charges for transmission and distribution services.

CenterPoint Houston's distribution rates charged to retail electric providers are generally based on amounts of energy delivered. Transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay CenterPoint Houston the same rates and other charges for transmission services. The transmission and distribution rates for CenterPoint Houston have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

Stranded Costs. CenterPoint Houston will be entitled to recover its stranded costs (the excess of net regulatory book value of generation assets (as defined by the Texas electric restructuring law) over the market value of those assets) and its regulatory assets related to generation. The Texas electric restructuring law prescribes specific methods for determining the amount of stranded costs and the details for their recovery. During the transition period to deregulation (the Transition Period), which included 1998 and the first six months of 1999, and extending through the base rate freeze period from July 1999 through 2001, the Texas electric restructuring law provided that earnings above a stated overall annual rate of return on invested capital be used to recover the Company's investment in generation assets (Accelerated Depreciation). In addition, during the Transition Period, the redirection of depreciation expense to generation assets that CenterPoint Houston would otherwise apply to transmission, distribution and general plant assets was permitted for regulatory

purposes (Redirected Depreciation). Please read the discussion of the accounting treatment for depreciation for financial reporting purposes below under "-- Accounting." The Company cannot predict the amount, if any, of these costs that may not be recovered.

In accordance with the Texas electric restructuring law, beginning on January 1, 2002, and ending December 31, 2003, any difference between market power prices received in the generation capacity auctions mandated by the Texas electric restructuring law and the Texas Utility Commission's earlier estimates of those prices will be included in the 2004 stranded cost true-up proceeding, as further discussed below. This component of the true-up is intended to ensure that neither the customers nor the Company is disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

On October 24, 2001, CenterPoint Energy Transition Bond Company, LLC (Bond Company), a Delaware limited liability company and direct wholly owned subsidiary of CenterPoint Houston, issued \$749 million aggregate principal amount of its Series 2001-1 Transition Bonds pursuant to a financing order of the Texas Utility Commission. Classes of the bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015, and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. Scheduled payments on the bonds are from 2002 through 2013. Net proceeds to the Bond Company from the issuance were \$738 million. The Bond Company paid CenterPoint Houston

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\$738 million for the transition property. Proceeds were used for general corporate purposes, including the repayment of indebtedness.

The Transition Bonds are secured primarily by the "transition property," which includes the irrevocable right to recover, through non-bypassable transition charges payable by certain retail electric customers, the qualified costs of CenterPoint Houston authorized by the financing order. The holders of the Bond Company's bonds have no recourse to any assets or revenues of CenterPoint Houston, and the creditors of CenterPoint Houston have no recourse to any assets or revenues (including, without limitation, the transition charges) of the Bond Company. CenterPoint Houston has no payment obligations with respect to the Transition Bonds except to remit collections of transition charges as set forth in a servicing agreement between CenterPoint Houston and the Bond Company and in an intercreditor agreement among CenterPoint Houston, the Bond Company and other parties.

The non-bypassable transition charges are required by the financing order to be true-up annually, effective November 1, for the term of the transition charge. CenterPoint Houston filed an annual true-up with the Texas Utility Commission on August 2, 2002 for transition charges that became effective November 1, 2002.

Costs associated with nuclear decommissioning will continue to be subject to cost-of-service rate regulation and are included in a charge to transmission and distribution customers. For further discussion of the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

True-Up Proceeding. The Texas electric restructuring law and current Texas Utility Commission implementation guidance provide for a true-up proceeding to be initiated in or after January 2004. The purpose of the true-up proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs (see Note 3(e)), and other regulatory assets associated with CenterPoint Houston's former electric generating operations that were not previously securitized through the Transition Bonds. The 2004 true-up proceeding will result in either additional charges being assessed on or credits being issued to certain retail electric customers. The Company appealed the Texas Utility Commission's true-up rule on the basis that there are no negative stranded costs, that the Company should be allowed to collect interest on stranded costs, and that the premium on the partial stock valuation applies to only the equity of Texas Genco, not equity plus debt. The Texas court of appeals issued a decision on February 6, 2003 upholding the rule in part and reversing in part. The court ruled that there are no negative stranded costs and that the premium on the partial stock valuation applies only to equity. The court upheld

the Texas Utility Commission's rule that interest on stranded costs begins upon the date of the final true-up order. On February 21, 2003, the Company filed a motion for rehearing on the issue that interest on amounts determined in the true-up proceeding should accrue from an earlier date. The Company has not accrued interest in its consolidated financial statements, but estimates that interest could be material. If the court of appeals denies the Company's motion, then the Company will have 45 days to appeal to the Texas Supreme Court. The Company has not decided what action, if any, it will take if the motion for rehearing is denied.

Accounting. Historically, the Company has applied the accounting policies established in SFAS No. 71. Effective June 30, 1999, the Company applied SFAS No. 101 to Texas Genco.

In 1999, the Company evaluated the effects that the Texas electric restructuring law would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of \$282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas electric restructuring law) will be recoverable. Therefore, the Company recorded a \$183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue No. 97-4 "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71 and No. 101" (EITF No. 97-4), the remaining recoverable regulatory assets are now

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associated with the transmission and distribution portion of the Company's electric utility business. For details regarding the Company's regulatory assets, see Note 3(e).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash flows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that \$797 million of electric generation assets were impaired in 1999. Of this amount, \$745 million related to the South Texas Project and \$52 million related to two gas-fired generation plants. The Texas electric restructuring law provides for recovery of this impairment through regulated cash flows during the transition period and through charges to transmission and distribution customers. As such, a regulatory asset was recorded for an amount equal to the impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of \$221 million during the six months ended December 31, 1999, \$329 million in 2000 and \$247 million in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, CenterPoint Houston must finalize and reconcile stranded costs (as defined by the Texas electric restructuring law) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Texas electric restructuring law) will be collected through future charges. Any overmitigation of stranded costs may be refunded by a reduction in future charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges.

In order to reduce potential exposure to stranded costs related to generation assets, CenterPoint Houston recognized Redirected Depreciation of \$195 million and \$99 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30,

1999, Redirected Depreciation expense could no longer be recorded by the Company's electric generation business for financial reporting purposes as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, \$99 million, \$218 million and \$230 million in depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was \$841 million, prior to the effects of the October 3, 2001 order discussed below.

Additionally, as allowed by the Texas Utility Commission, in an effort to further reduce potential exposure to stranded costs related to generation assets, CenterPoint Houston recorded Accelerated Depreciation of \$194 million and \$104 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. Accelerated Depreciation expense was recorded in accordance with the Company's Transition Plan during this period. Subsequent to June 30, 1999, Accelerated Depreciation expense could no longer be recorded by the Company's electric generation business for financial reporting purposes, as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, \$179 million, \$385 million and \$264 million, respectively, of Accelerated Depreciation was recorded for regulatory reporting purposes, reducing the regulatory book value of the Company's electric generation assets.

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The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution utility rates that became effective in January 2002. In this Order, the Texas Utility Commission found that CenterPoint Houston had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas electric restructuring law. As a result of the October 3, 2001 Order, CenterPoint Houston was required to reverse the \$841 million embedded regulatory asset related to Redirected Depreciation, thereby reducing the net book value of transmission and distribution assets. CenterPoint Houston was required to record a regulatory liability of \$1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven-year period which began in January 2002.

As of December 31, 2002, in contemplation of the 2004 true-up proceeding, CenterPoint Houston has recorded a regulatory asset of \$2.0 billion representing the estimated future recovery of previously incurred stranded costs, which includes \$1.1 billion of previously recorded Accelerated Depreciation plus Redirected Depreciation, both reversed in 2001. Offsetting this regulatory asset is a \$969 million regulatory liability to refund the excess mitigation to ratepayers. This estimated recovery is based upon current projections of the market value of the Company's Texas generation assets to be covered by the 2004 true-up proceeding calculations. The regulatory liability reflects a current refund obligation arising from prior mitigation of stranded costs deemed excessive by the Texas Utility Commission. CenterPoint Houston began refunding excess mitigation credits with January 2002 bills. These credits are to be refunded over a seven-year period. Because accounting principles generally accepted in the United States of America require CenterPoint Houston to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs in the 2004 true-up proceeding are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

(B) AGREEMENTS RELATED TO TEXAS GENERATING ASSETS

Pursuant to the business separation plan, on January 6, 2003, the Company distributed approximately 19% of Texas Genco's 80 million outstanding shares of common stock to its shareholders in order to establish a public market value for

shares of that stock which will be used in 2004 to calculate how much CenterPoint Houston will be able to recover as stranded costs. Reliant Resources has an option to purchase the Company's remaining 81% interest in Texas Genco (Texas Genco Option). The Texas Genco Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the applicable national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the cash dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's earnings during that period. Reliant Resources has agreed that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by CenterPoint Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest. Exercise of the Texas Genco Option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval.

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Texas Genco is the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Texas Genco owns a 30.8% interest (see Note 6). CenterPoint Houston collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and pays the amounts to Texas Genco. Texas Genco in turn deposits these amounts into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, CenterPoint Houston or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to the ratepayers of CenterPoint Houston or its successor.

(C) CENTERPOINT HOUSTON REGULATORY FILINGS

CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission on July 1, 2002. This final fuel reconciliation filing covers reconcilable fuel revenue, fuel expense and interest of approximately \$8.5 billion incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of \$94 million, which was the balance at July 31, 1997 as approved in CenterPoint Houston's last fuel reconciliation. On January 28, 2003, a settlement agreement was reached under which it was agreed that certain items totaling \$24 million were written off during the fourth quarter of 2002 and items totaling \$203 million will be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004.

(D) ARKLA RATE CASE

In November 2001, CenterPoint Energy Arkla (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.

(E) 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, the Company 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) or (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.

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Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of \$59 million and 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 the Company's Consolidated Balance Sheet.

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.

(A) NON-TRADING ACTIVITIES.

Cash Flow Hedges. To reduce the risk from market fluctuations associated with purchased gas costs, the Company enters into energy derivatives in order to hedge certain expected purchases and sales of natural gas (non-trading energy derivatives). The Company 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. The Company analyzes its physical transaction portfolio to determine its net exposure by delivery location and delivery period. Because the Company's physical transactions with similar delivery locations and periods are highly correlated and share similar risk exposures, the Company 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, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive loss. 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 loss is reclassified and included in the Company's Statements of Consolidated Operations 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, the Company expects \$1 million in accumulated other comprehensive loss to be reclassified into net income during the next twelve months.

The maximum length of time the Company 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 five years. The Company's policy is not to exceed five years in hedging its exposure.

Interest Rate Swaps. As of December 31, 2002, the Company had outstanding interest rate swaps with an aggregate notional amount of \$750 million to fix the interest rate applicable to floating rate short-term debt. These swaps do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Operations. During the year ended December 31, 2002, the Company settled its forward-starting interest rate swaps having an aggregate notional amount of \$1.5 billion at a cost of \$156 million. The Company has designated and accounted for the forward-interest rate swaps as a cash flow hedge of the Company's exposure to variability in future interest payments on fixed rate debt the Company anticipates issuing. Accordingly, the Company recorded the \$156 million cost in other comprehensive income, which will be amortized into interest expense in the same period during which the forecasted interest payments affect earnings. The Company assesses and measures the hedging relationship on a quarterly basis by comparing the

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critical terms of the forward starting interest rate swaps with the expected terms of the forecasted debt issuance as well as evaluating the probability of the underlying interest payments occurring. The Company reclassified approximately \$36 million in 2002 as a result of interest payments it believes are no longer probable of occurring for certain periods.

(B) CREDIT RISKS.

In addition to the risk associated with price movements, credit risk is also inherent in the Company'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 the Company as of December 31, 2001 and 2002:

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

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- (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 encompass 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, Inc. (Reliant Energy Services) an affiliate until the date of the Reliant Resources Distribution. As of December 31, 2002, Reliant Energy Services did not have an Investment Grade rating.

(C) GENERAL POLICY.

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

The Company'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) INDEXED DEBT SECURITIES (ACES AND ZENS) AND AOL TIME WARNER SECURITIES

(A) ORIGINAL INVESTMENT IN TIME WARNER SECURITIES

In 1995, the Company sold a cable television subsidiary to Time Warner Inc. (TW) and received TW convertible preferred stock (TW Preferred) as consideration. On July 6, 1999, the Company converted its 11 million shares of TW Preferred into 45.8 million shares of Time Warner common stock (TW Common). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of \$990 million in the Company's Consolidated Balance Sheets. The TW Preferred which was redeemable after July 6, 2000, had an aggregate liquidation preference of \$100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of \$3.75 per share until July 6, 1999 and was convertible by the Company. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of \$2.4 billion (\$1.5 billion after-tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities. Unrealized gains and losses resulting from changes in the market value of the TW Common (now AOL TW Common) are recorded in the Company's Statements of Consolidated Operations.

(B) ACES

In July 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company issued 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES) having an original principal amount of \$1.052 billion and maturing July 1, 2000. The market value of ACES was indexed to the market value of TW Common. On the July 1, 2000 maturity date, the Company tendered 37.9 million shares of TW Common to fully settle its obligations in connection with its unsecured 7% ACES having a value of \$2.9 billion.

(C) ZENS

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of \$1.0 billion. The principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than \$.045, so that the annual yield to investors is not less than 2.309%. At December 31, 2002, 14.4 million ZENS were outstanding. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of AOL TW Common, or other securities distributed with respect to AOL TW Common

(1.5 shares of AOL TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has a principal amount of \$58.25, and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some cases) of the market value of the reference shares attributable to one

ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to some conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 2002, no interest payments on the ZENS had been deferred.

In 2002, holders of approximately 16% of the 17.2 million ZENS originally issued exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by CenterPoint Energy of approximately \$45 million.

A subsidiary of the Company owns shares of AOL TW Common and elected to liquidate a portion of such holdings to facilitate the Company's making the cash payments for the ZENS exchanged in 2002. In connection with the exchanges in 2002, the Company received net proceeds of approximately \$43 million from the liquidation of approximately 4.1 million shares of AOL TW Common at an average price of \$10.56 per share. The Company now holds 21.6 million shares of AOL TW Common which are classified as trading securities under SFAS No. 115 and are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

Prior to January 1, 2001, an increase in the market value per share of TW Common above \$58.25 (subject to some adjustments) resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below \$58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of AOL TW Common at maturity). The derivative component was valued at fair value and determined the initial carrying value assigned to the debt component (\$121 million) as the difference between the original principal amount of the ZENS (\$1.0 billion) and the fair value of the derivative component at issuance (\$879 million). Effective January 1, 2001 the debt component was recorded at its accreted amount of \$122 million and the derivative component was recorded at its fair value of \$788 million, as a current liability, resulting in a transition adjustment pre-tax gain of \$90 million (\$59 million net of tax). The transition adjustment gain was reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component accretes through interest charges at 17.5% annually up to the minimum amount payable upon maturity of the ZENS in 2029 (approximately \$915 million) which reflects exchanges and adjustments to maintain a 2.309% annual yield, as discussed above. Changes in the fair value of the derivative component are recorded in the Company's Statements of Consolidated Operations. During 2001 and 2002, the Company recorded a loss of \$70 million and \$500 million, respectively, on the Company's investment in AOL TW Common. During 2001 and 2002, the Company recorded a gain of \$58 million and \$480 million, respectively, associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the AOL TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

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The following table sets forth summarized financial information regarding the Company's investment in AOL TW securities and the Company's ACES and ZENS obligations (in millions).

	AOL TW INVESTMENT	ACES	DEBT COMPONENT OF ZENS	DERIVATIVE COMPONENT OF ZENS
	-----	-----	-----	-----
Balance at December 31, 1999.....	\$ 3,979	\$ 2,738	\$1,241	\$ --
Loss (gain) on indexed debt securities.....	--	139	(241)	--
Loss on TW Common.....	(205)	--	--	--
Settlement of ACES.....	(2,877)	(2,877)	--	--
	-----	-----	-----	-----
Balance at December 31, 2000.....	897	--	1,000	--
Transition adjustment from adoption of SFAS No. 133.....	--	--	(90)	--

Bifurcation of ZENS obligation.....	--	--	(788)	788
Accretion of debt component of ZENS.....	--	--	1	--
Gain on indexed debt securities.....	--	--	--	(58)
Loss on AOL TW Common.....	(70)	--	--	--
	-----	-----	-----	-----
Balance at December 31, 2001.....	827	--	123	730
Accretion of debt component of ZENS.....	--	--	1	--
Gain on indexed debt securities.....	--	--	--	(480)
Loss on AOL TW Common.....	(500)	--	--	--
Liquidation of AOL TW Common.....	(43)	--	--	--
Liquidation of ZENS, net of gain.....	--	--	(20)	(25)
	-----	-----	-----	-----
Balance at December 31, 2002.....	\$ 284	\$ --	\$ 104	\$ 225
	=====	=====	=====	=====

(9) LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	DECEMBER 31, 2001		DECEMBER 31, 2002	
	-----		-----	
	LONG-TERM	CURRENT (1)	LONG-TERM	CURRENT (1)
	-----	-----	-----	-----
	(IN MILLIONS)			
Short-term borrowings:				
Commercial paper and bank loans.....		\$2,792		\$ 347
Receivables facility(2).....		346		--
Other(3).....		391		--
		-----		-----
Total short-term borrowings.....		3,529		347
		-----		-----
Long-term debt:				
CenterPoint Energy:				
ZENS(4).....	\$ --	\$ 123	\$ --	\$ 104
Debentures 7.88% due 2002.....	--	100	--	--
Medium-term notes and pollution control bonds 4.90% to 6.70% due 2003 to 2027(5)(8).....	547	--	380	167
Pollution control bonds 4.70% to 5.95% due 2011 to 2030(6).....	1,046	100	871	--
Bank loan due 2005(7).....	--	--	3,850	--
CenterPoint Houston:				
First mortgage bonds 7.50% to 9.15% due 2021 to 2023(8).....	615	--	615	--
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013(9).....	736	13	717	19
Term loan, LIBOR plus 9.75%, due 2005(10).....	--	--	1,310	--
Debentures 7.40% due 2002.....	--	300	--	--
CERC Corp.:(11)				
Convertible debentures 6.00% due 2012.....	82	--	76	--
Debentures 6.38% to 8.90% due 2003 to 2011.....	1,833	--	1,331	500
Other.....	51	1	52	7
Unamortized discount and premium.....	5	--	(8)	13
	-----	-----	-----	-----
Total long-term debt.....	4,915	637	9,194	810
	-----	-----	-----	-----
Total borrowings.....	\$4,915	\$4,166	\$9,194	\$1,157
	=====	=====	=====	=====

(1) Includes amounts due or exchangeable within one year of the date noted.

(2) In the first quarter of 2002, CERC reduced its trade receivables facility from \$350 million to \$150 million. Advances under the receivables facility aggregating \$196 million were repaid in January 2002 with proceeds from the issuance of commercial paper and from the liquidation of short-term investments. For further discussion of the receivables facility, see Note 3(i).

(3) The \$391 million of other short-term borrowings at December 31, 2001 reflects a note payable to Reliant Resources, which was repaid in 2002.

(4) Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's ZENS obligation was bifurcated into a debt component and an embedded derivative

component. For additional information regarding ZENS, see Note 7(c). As ZENS are exchangeable for cash at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

- (5) These series of debt are secured by first mortgage bonds of CenterPoint Houston.
- (6) \$527 million of these series of debt is secured by general mortgage bonds of CenterPoint Houston.
- (7) On February 28, 2003, CenterPoint Energy amended and extended the termination date of its \$3.85 billion credit facility to June 30, 2005 as discussed further below. As a result of this extension, the \$3.85 billion credit facility has been classified as long-term debt as of December 31, 2002 in the Consolidated Balance Sheet.
- (8) The December 31, 2001 debt balances have been reclassified to give effect to the Restructuring, which occurred on August 31, 2002.
- (9) For further discussion of the securitization financing, see Note 4(a).
- (10) London inter-bank offered rate (LIBOR) has a minimum rate of 3%. This term loan is secured by general mortgage bonds of CenterPoint Houston.
- (11) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long-term debt is additional unamortized premium related to fair value adjustments of long-term debt of \$9 million and \$7 million at December 31, 2001 and 2002, respectively, which is being amortized over the respective remaining term of the related long-term debt.

During 2002, the Company recorded a \$26 million loss on the early extinguishment of debt related to CenterPoint Houston's \$850 million term loan and the repurchase of \$175 million of the Company's pollution control bonds.

(b) LONG-TERM DEBT

On February 28, 2003, the Company reached agreement with a syndicate of banks on a second amendment to its \$3.85 billion bank facility (the "Second Amendment"). Under the Second Amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the \$1.2 billion in mandatory prepayments that would have been required this year (including \$600 million due on February 28, 2003) were eliminated. The facility consists of a \$2.35 billion term loan and a \$1.5 billion revolver. Borrowings bear interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. At our current credit ratings, the pricing for loans remains the same. The drawn cost for the facility at our current ratings is LIBOR plus 450 basis points. The Company has agreed to pay the banks an extension fee of 75 basis points on the amounts outstanding under the bank facility on October 9, 2003. The Company also paid \$41 million in fees that were due on February 28, 2003, along with \$20 million in fees that had been due on June 30, 2003.

In addition, the interest rates will be increased by 25 basis points beginning May 28, 2003 if the Company does not grant the banks a security interest in our 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco requires approval from the Securities and Exchange Commission (SEC) under the 1935 Act, which is currently being sought. That security interest would be released when the Company sells Texas Genco, which is expected to occur in 2004. Proceeds from the sale will be used to reduce the bank facility.

Also under the Second Amendment, on or before May 28, 2003, the Company expects to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of our common stock at a price equal to the greater of \$6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years; provided, that if the Company reduces the bank facility during 2003 by specified amounts, the warrants will be extinguished. To the extent that the Company reduces the bank facility by up to

\$400 million on or before May 28, 2003, up to half of the warrants will be extinguished on a basis proportionate to the reduction in the credit facility. To the extent such warrants are not extinguished on or before May 28, 2003, they will vest and become exercisable in accordance with their terms. Whether or not the Company is able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if the Company reduces the bank facility by up to \$400 million by the end of 2003. The Company plans to eliminate the warrants entirely before they vest by accessing the capital markets to fund the total payments of \$800 million during 2003; however, because of current financial market conditions and uncertainties regarding such conditions over the balance of the year, there can be no assurance that the Company will be able to extinguish the warrants or to do so on favorable terms.

The warrants and the underlying common stock would be registered with the SEC and could be exercised either through the payment of the purchase price or on a "cashless" basis under which the Company would issue a number of shares equal to the difference between the then-current market price and the warrant exercise price. Issuance of the warrants is also subject to obtaining SEC approval under the 1935 Act, which is currently being sought. If that approval is not obtained on or before May 28, 2003, the Company will provide the banks equivalent cash compensation over the term that its warrants would have been exercisable to the extent they are not otherwise extinguished.

In the Second Amendment, the Company also agreed that its quarterly common stock dividend will not exceed \$0.10 per share. If the Company has not reduced the bank facility by a total of at least \$400 million by the end of 2003, of which at least \$200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) \$0.10 per share or (ii) 12.5% of the Company's net income per share for the 12 months ended on the last day of the previous quarter.

The Second Amendment provides that proceeds from capital stock or indebtedness issued or incurred by the Company must be applied (subject to a \$200 million basket for CERC and another \$250 million basket for borrowings by the Company and other limited exceptions) to repay bank loans and reduce the bank facility. Similarly, cash proceeds from the sale of assets of more than \$30 million or, if less, a group of sales aggregating more than \$100 million, must be applied to repay bank loans and reduce the bank facility, except that proceeds of up to \$120 million can be reinvested in the Company's businesses.

On November 12, 2002, CenterPoint Houston entered into a \$1.3 billion collateralized term loan maturing November 2005. The interest rate on the loan is LIBOR plus 9.75%, subject to a minimum rate of 12.75%. The loan is secured by CenterPoint Houston's general mortgage bonds. Proceeds from the loan were used to (1) repay CenterPoint Houston's \$850 million term loan, (2) pay costs of issuance, (3) repay \$300 million of debt that matured on November 15, 2002 and (4) to purchase \$100 million of pollution control bonds on December 1, 2002. The loan agreement contains various business and financial covenants including a covenant restricting CenterPoint Houston's debt, excluding transition bonds, as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued by CenterPoint Houston to \$300 million.

Maturities. The Company's maturities of long-term debt and sinking fund requirements, excluding the ZENS obligation, are \$706 million in 2003 (of which \$500 million may be remarketed by an option holder to a maturity of 2013), \$47 million in 2004, \$5.6 billion in 2005, \$210 million in 2006 and \$68 million in 2007. The 2003 and 2004 amounts are net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2002.

Liens. CenterPoint Houston's assets are subject to liens securing approximately \$1.2 billion of first mortgage bonds. Sinking or improvement fund and replacement fund requirements on the first mortgage bonds may be satisfied by certification of property additions. Sinking fund and replacement fund requirements

for 2000, 2001 and 2002 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2003 is approximately \$347 million, and the sinking fund requirement to be satisfied in 2003 is approximately \$15 million. The Company expects CenterPoint Houston to meet these 2003 obligations by certification of property additions. CenterPoint Houston's assets are subject to liens securing approximately \$1.8 billion of general mortgage bonds which are junior to the liens of the first mortgage bonds.

Securitization. For a discussion of the securitization financing completed in October 2001, see Note 4(a).

Purchase of Pollution Control Bonds. In the fourth quarter of 2002, the Company purchased \$175 million of pollution control bonds issued on its behalf. The Company expects to remarket the bonds during the first half of 2003.

Purchase of Convertible Debentures. At December 31, 2001 and 2002, CERC Corp. had issued and outstanding \$86 million and \$79 million, respectively, aggregate principal amount (\$82 million and \$76 million, respectively, carrying amount) of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and, prior to the Restructuring, had the right at any time on or before the maturity date thereof to convert each \$50 principal amount of Subordinated Debentures into 0.65 shares of Reliant Energy common stock and \$14.24 in cash. After the Restructuring, but prior to the Reliant Resources Distribution, each \$50 principal amount of Subordinated Debentures was convertible into 0.65 shares of CenterPoint Energy common stock and \$14.24 in cash. The Reliant Resources Distribution and the Texas Genco stock distribution changed the conversion rights for each \$50 principal amount of Subordinated Debentures as follows:

DATE	EVENT	CASH	SHARES OF CENTERPOINT ENERGY COMMON STOCK
October 1, 2002.....	Distribution of Reliant Resources common stock	\$14.24	1.02
December 21, 2002.....	Distribution of Texas Genco common stock	\$14.24	1.11

During 2002, CERC Corp. purchased \$6.6 million aggregate principal amount of its Subordinated Debentures.

TERM Notes. CERC Corp.'s \$500 million aggregate principal amount of 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) provide an investment bank with a call option, that gives it the right to have the TERM Notes tendered to it by the holders on November 1, 2003 and then remarketed if it chooses to exercise the option. The TERM Notes are unsecured obligations of CERC Corp. that bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the call option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, CERC Corp. will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by CERC Corp., within the 52-week period beginning November 1, 2003. CERC Corp. may elect into this 52-week remarketing window only if its senior unsecured debt securities are rated at least Baa3 by Moody's Investors Service, Inc. and BBB- by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (unless the investment banker waives that requirement). During this period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by CERC Corp. CERC Corp. may elect to redeem the TERM Notes in whole, but not in part, from the investment bank prior to remarketing. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the

remarketed TERM Notes will be 5.66% plus CERC Corp.'s applicable credit spread at the time of such remarketing.

Transportation Agreement. A subsidiary of CERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of CERC Corp.'s pipeline and related assets. In 2001, this subsidiary was transferred to Reliant Resources as a result of CenterPoint Energy's planned divestiture of certain unregulated business operations. However, CERC retained the pipelines covered by the ANR Agreement. Therefore, the subsequent divestiture of Reliant Resources by CenterPoint Energy on September 30, 2002, resulted in a conversion of CERC's obligation to ANR into an obligation to Reliant Resources. As of December 31, 2001, the Company had recorded \$41 million in long-term debt and as of December 31, 2002, the Company had recorded \$5 million and \$36 million in current portion of long-term debt and long-term debt, respectively, in its Consolidated Balance Sheets to reflect this obligation for the use of 130 million cubic feet (Mmcf)/day of capacity in some of CERC's transportation facilities. The volume of transportation will decline to 100 Mmcf/day in the year 2003 with a refund by CERC of \$5 million to Reliant Resources. The ANR Agreement will terminate in 2005 with a refund of \$36 million to Reliant Resources.

(10) TRUST PREFERRED SECURITIES

In February 1997, two Delaware statutory business trusts created by CenterPoint Energy (HL&P Capital Trust I and HL&P Capital Trust II) issued to the public (a) \$250 million aggregate amount of preferred securities and (b) \$100 million aggregate amount of capital securities, respectively. In February 1999, a Delaware statutory business trust created by CenterPoint Energy (REI Trust I) issued \$375 million aggregate amount of preferred securities to the public. CenterPoint Energy accounts for REI Trust I, HL&P Capital Trust I and HL&P Capital Trust II as wholly owned consolidated subsidiaries. Each of the trusts used the proceeds of the offerings to purchase junior subordinated debentures issued by CenterPoint Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities.

The junior subordinated debentures are the trusts' sole assets and their entire operations. CenterPoint Energy considers its obligations under the Amended and Restated Declaration of Trust, Indenture, Guaranty Agreement and, where applicable, Agreement as to Expenses and Liabilities, relating to each series of preferred securities or capital securities, taken together, to constitute a full and unconditional guarantee by CenterPoint Energy of each trust's obligations with respect to the respective series of preferred securities or capital securities.

The preferred securities and capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, CenterPoint Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, CenterPoint Energy may not pay dividends on its capital stock. As of December 31, 2002, no interest payments on the junior subordinated debentures had been deferred.

The outstanding aggregate liquidation amount, distribution rate and mandatory redemption date of each series of the preferred securities or capital securities of the trusts described above and the identity and similar terms of each related series of junior subordinated debentures are as follows:

AGGREGATE		
LIQUIDATION		
AMOUNTS AS OF		MANDATORY
DECEMBER 31,	DISTRIBUTION	REDEMPTION

TRUST -----	2001 AND 2002 (IN MILLIONS) -----	RATE/ INTEREST RATE -----	DATE/ MATURITY DATE -----	JUNIOR SUBORDINATED DEBENTURES -----
REI Trust I.....	\$375	7.20%	March 2048	7.20% Junior Subordinated Debentures
HL&P Capital Trust I.....	\$250	8.125%	March 2046	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II.....	\$100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B

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.

(11) STOCK-BASED INCENTIVE COMPENSATION PLANS AND EMPLOYEE BENEFIT PLANS

(a) INCENTIVE COMPENSATION PLANS

The Company has long-term incentive compensation plans (LICP) that provide for the issuance of stock-based incentives, including performance-based shares, performance-based units, restricted shares, stock options and stock appreciation rights to key employees of the Company, including officers. As of December 31, 2002, 344 current and 443 former employees of the Company participate in the plans. A maximum of approximately 37 million shares of CenterPoint Energy common stock may be issued under these plans.

Performance-based shares, performance-based units and restricted shares are granted to employees without cost to the participants. The performance shares and units vest three years after the grant date based

upon the performance of the Company over a three-year cycle, except as discussed below. The restricted shares vest at various times ranging from immediately to at the end of a three-year period. Upon vesting, the shares are issued to the plan participants.

During 2000, 2001 and 2002, the Company recorded compensation expense of \$22 million, \$6 million and \$2 million, respectively, related to performance-based shares, performance-based units and restricted share grants. Included in these amounts is \$7 million and \$5 million in compensation expense for 2000 and 2001, respectively, related to Reliant Resources' participants. In addition, compensation benefit of \$1 million was recorded in 2002 related to

Reliant Resources' participants. Amounts for Reliant Resources' participants are reflected in discontinued operations in the Statements of Consolidated Operations.

The following table summarizes the Company's performance-based units, performance-based shares and restricted share grant activity for the years 2000 through 2002:

	NUMBER OF PERFORMANCE-BASED UNITS	NUMBER OF PERFORMANCE-BASED SHARES	NUMBER OF RESTRICTED SHARES
	-----	-----	-----
Outstanding at December 31, 1999.....	--	928,467	270,623
Granted.....	--	394,942	206,395
Canceled.....	--	(81,541)	(13,060)
Released to participants.....	--	(174,001)	(5,346)
	-----	-----	-----
Outstanding at December 31, 2000.....	--	1,067,867	458,612
Granted.....	83,670	--	2,623
Canceled.....	--	(17,154)	(2,778)
Released to participants.....	--	(424,623)	(249,895)
	-----	-----	-----
Outstanding at December 31, 2001.....	83,670	626,090	208,562
Granted.....	--	451,050	--
Canceled.....	(5,625)	(176,258)	(41,892)
Released to participants.....	(120)	(447,060)	(78,768)
	-----	-----	-----
Outstanding at December 31, 2002.....	77,925	453,822	87,902
	=====	=====	=====
Weighted average fair value granted for 2000.....		\$ 25.19	\$ 28.03
		=====	=====
Weighted average fair value granted for 2001.....		\$ --	\$ 38.13
		=====	=====
Weighted average fair value granted for 2002.....		\$ 12.00	\$ --
		=====	=====

The maximum value associated with the performance-based units granted in 2001 was \$150 per unit.

Effective with the Reliant Resources Distribution which occurred on September 30, 2002, the Company's compensation committee authorized the conversion of outstanding CenterPoint Energy performance-based shares for the performance cycle ending December 31, 2002 to a number of time-based restricted shares of CenterPoint Energy's common stock equal to the number of performance-based shares that would have vested if the performance objectives for the performance cycle were achieved at the maximum level for substantially all shares. These time-based restricted shares vested if the participant holding the shares remained employed with the Company or with Reliant Resources and its subsidiaries through December 31, 2002. On the date of the Reliant Resources Distribution, holders of these time-based restricted shares received shares of Reliant Resources common stock in the same manner as other holders of CenterPoint Energy common stock, but these shares of common stock were subject to the same time-based vesting schedule, as well as to the terms and conditions of the plan under which the original performance shares were granted. Thus, following the

Reliant Resources Distribution, employees who held performance-based shares under the LICP for the performance cycle ending December 31, 2002 held time-based restricted shares of CenterPoint Energy common stock and time-based restricted shares of Reliant Resources common stock, which vested following continuous employment through December 31, 2002.

Effective with the Reliant Resources Distribution, the Company converted all outstanding CenterPoint Energy stock options granted prior to the Reliant

Resources Offering to a combination of adjusted CenterPoint Energy stock options and Reliant Resources stock options. For the converted stock options, the sum of the intrinsic value of the CenterPoint Energy stock options immediately prior to the record date of the Reliant Resources Distribution equaled the sum of the intrinsic values of the adjusted CenterPoint Energy stock options and the Reliant Resources stock options granted immediately after the record date of the Reliant Resources Distribution. As such, Reliant Resources employees who do not work for the Company hold stock options of the Company. Both the number and the exercise price of all outstanding CenterPoint Energy stock options that were granted on or after the Reliant Resources Offering were adjusted to maintain the total intrinsic value of the grants.

During January 2003, due to the distribution of Texas Genco stock, the Company granted additional CenterPoint Energy shares to participants with performance-based and time-based shares that had not yet vested as of the record date of December 20, 2002. These additional shares are subject to the same vesting schedule and the terms and conditions of the plan under which the original shares were granted. Also in connection with this distribution, both the number and the exercise price of all outstanding CenterPoint Energy stock options were adjusted to maintain the total intrinsic value of the stock option grants.

Under the Company's plans, stock options generally become exercisable in one-third increments on each of the first through third anniversaries of the grant date. The exercise price is the average of the high and low sales price of the common stock on the New York Stock Exchange on the grant date. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for these fixed stock options. The following table summarizes stock option activity related to the Company for the years 2000 through 2002:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at December 31, 1999.....	6,462,971	\$25.99
Options granted.....	5,936,510	22.14
Options exercised.....	(1,061,169)	25.01
Options canceled.....	(1,295,877)	23.96

Outstanding at December 31, 2000.....	10,042,435	24.13
Options granted.....	1,887,668	46.23
Options exercised.....	(1,812,022)	24.11
Options canceled.....	(289,610)	27.38

Outstanding at December 31, 2001.....	9,828,471	28.34
Options granted.....	3,115,399	7.12
Options converted at Reliant Resources Distribution....	742,636	29.01
Options exercised.....	(71,273)	20.59
Options canceled.....	(1,155,351)	16.11

Outstanding at December 31, 2002.....	12,459,882	\$18.26
	=====	=====

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Options exercisable at December 31, 2000.....	2,258,397	\$25.76
	=====	=====
Options exercisable at December 31, 2001.....	3,646,228	\$25.38
	=====	=====
Options exercisable at December 31, 2002.....	6,854,910	\$19.78
	=====	=====

Exercise prices for CenterPoint Energy stock options outstanding held by Company employees ranged from \$5.00 to \$40.00. The following tables provide information with respect to outstanding CenterPoint Energy stock options held by the Company's employees on December 31, 2002:

	OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE	REMAINING AVERAGE CONTRACTUAL LIFE (YEARS)
	-----	-----	-----
Ranges of Exercise Prices:			
\$5.00-\$15.00.....	6,330,830	\$11.40	8.0
\$15.01-\$20.00.....	2,981,020	19.05	5.9
\$20.01-\$30.00.....	731,891	23.07	6.9
\$30.01-\$40.00.....	2,416,141	33.80	8.3

Total.....	12,459,882	18.26	7.5
	=====		

The following table provides information with respect to CenterPoint Energy stock options exercisable at December 31, 2002:

	OPTIONS EXERCISABLE	AVERAGE EXERCISE PRICE
	-----	-----
Ranges of Exercise Prices:		
\$5.00-\$15.00.....	2,446,317	\$14.82
\$15.01-\$20.00.....	2,929,020	19.09
\$20.01-\$30.00.....	598,556	22.76
\$30.01-\$40.00.....	881,017	33.81

Total.....	6,854,910	19.78
	=====	

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), and SFAS No. 148, the Company applies the guidance contained in APB Opinion No. 25 and discloses the required pro forma effect on net income of the fair value based method of accounting for stock compensation. The weighted average fair values at date of grant for CenterPoint Energy options granted during 2000, 2001 and 2002 were \$5.07, \$9.25 and \$1.40, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	2000	2001	2002
	-----	-----	-----
Expected life in years.....	5	5	5
Interest rate.....	6.57%	4.87%	2.83%
Volatility.....	24.00%	31.91%	48.95%
Expected common stock dividend.....	\$ 1.50	\$ 1.50	\$ 0.64

Pro forma information for 2000, 2001 and 2002 is provided to take into account the amortization of stock-based compensation to expense on a straight-line basis over the vesting period. Had compensation costs been

determined as prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

	2000	2001	2002
	-----	-----	-----
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net Income (loss):			
As reported.....	\$ 447	\$ 980	\$ (3,920)
Pro forma.....	\$ 437	\$ 968	\$ (3,929)
Basic Earnings Per Share:			
As reported.....	\$1.57	\$3.38	\$ (13.16)
Pro forma.....	\$1.54	\$3.34	\$ (13.16)
Diluted Earnings Per Share:			
As reported.....	\$1.56	\$3.35	\$ (13.08)
Pro forma.....	\$1.52	\$3.31	\$ (13.08)

(B) PENSION AND POSTRETIREMENT BENEFITS

The Company maintains a pension plan which is a non-contributory defined benefit plan covering substantially all employees using a cash balance formula. 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.

The Company's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the pension plans consist principally of common stocks and interest bearing obligations. Included in such assets are approximately 4.5 million shares of CenterPoint Energy common stock contributed from treasury stock during 2001. As of December 31, 2002, the fair value of CenterPoint Energy common stock was \$38 million or 4.7% of the pension plan assets.

The Company provides certain healthcare and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective in early 1999, health care benefits for future retirees were changed to limit employer contributions for medical coverage.

Such benefit costs are accrued over the active service period of employees. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

The Company is required to fund a portion of its obligations in accordance with rate orders. All other obligations are funded on a pay-as-you-go basis.

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The Company's net periodic cost (benefit) includes the following components relating to pension and postretirement benefits:

	YEAR ENDED DECEMBER 31,					
	2000		2001		2002	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	-----	-----	-----	-----	-----	-----
	(IN MILLIONS)					
Service cost.....	\$ 31	\$ 6	\$ 35	\$ 5	\$ 32	\$ 5
Interest cost.....	88	27	99	31	104	32
Expected return on plan assets...	(146)	(11)	(138)	(13)	(126)	(13)
Net amortization.....	(12)	11	(3)	14	16	13
Curtailment.....	--	--	(23)	40	--	--
Benefit enhancement.....	--	--	69	--	9	3
Settlement.....	--	--	--	--	--	(18)
	-----	-----	-----	-----	-----	-----

Net periodic cost (benefit).....	\$ (39)	\$ 33	\$ 39	\$ 77	\$ 35	\$ 22
	=====	=====	=====	=====	=====	=====
Above amounts reflect the following net periodic cost (benefit) related to discontinued operations.....						
	\$ --	\$ --	\$ 45	\$ 42	\$ (4)	\$ (16)
	=====	=====	=====	=====	=====	=====

The following table displays the change in the benefit obligation, the fair value of plan assets and the amounts included in the Company's Consolidated Balance Sheets as December 31, 2001 and 2002 for the Company's pension and postretirement benefit plans:

	DECEMBER 31,			
	2001		2002	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation, beginning of year.....	\$ 1,317	\$ 425	\$ 1,485	\$ 456
Service cost.....	35	5	32	5
Interest cost.....	99	31	104	32
Participant contributions.....	--	5	--	7
Benefits paid.....	(92)	(17)	(136)	(26)
Actuarial loss.....	69	7	56	20
Curtailment, benefit enhancement and settlement.....	57	--	9	(15)
Benefit obligation, end of year.....	\$ 1,485	\$ 456	\$ 1,550	\$ 479
	=====	=====	=====	=====
CHANGE IN PLAN ASSETS				
Plan assets, beginning of year.....	\$ 1,417	\$ 122	\$ 1,376	\$ 139
Employer contributions.....	107	40	--	30
Participant contributions.....	--	5	--	7
Benefits paid.....	(92)	(17)	(136)	(26)
Actual investment return.....	(56)	(11)	(186)	(19)
Plan assets, end of year.....	\$ 1,376	\$ 139	\$ 1,054	\$ 131
	=====	=====	=====	=====

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	DECEMBER 31,			
	2001		2002	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
RECONCILIATION OF FUNDED STATUS				
Funded status.....	\$ (109)	\$ (317)	\$ (496)	\$ (348)
Unrecognized actuarial loss.....	470	(25)	811	27
Unrecognized prior service cost.....	(93)	65	(84)	60
Unrecognized transition (asset) obligation.....	(2)	94	--	87
	-----	-----	-----	-----
Prepaid (accrued) pension cost.....	\$ 266	\$ (183)	\$ 231	\$ (174)
	=====	=====	=====	=====
AMOUNTS RECOGNIZED IN BALANCE SHEETS				
Other assets-Other.....	\$ 266	\$ --	\$ --	\$ --
Benefits obligations.....	--	(183)	(392)	(174)
Accumulated other comprehensive income.....	--	--	623	--
	-----	-----	-----	-----
Prepaid (accrued) pension cost.....	\$ 266	\$ (183)	\$ 231	\$ (174)
	=====	=====	=====	=====
ACTUARIAL ASSUMPTIONS				

Discount rate.....	7.25%	7.25%	6.75%	6.75%
Expected return on plan assets.....	9.5%	9.5%	9.0%	9.0%
Rate of increase in compensation levels.....	3.5-5.5%	--	3.5-5.5%	--

For the year ended December 31, 2001, the assumed health care cost trend rates were 7.5% for participants under age 65 and 8.5% for participants age 65 and over. For the year ended December 31, 2002, the assumed health cost trend rate was increased to 12% for all participants. The health care cost trend rates decline by .75% annually to 5.5% by 2011.

If the health care cost trend rate assumption were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would increase by 2.9%. The annual effect of a 1% increase on the sum of service and interest cost would be an increase of approximately 2.4%. If the health care cost trend rate assumption were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would decrease approximately 2.8%. The annual effect of a 1% decrease on the sum of service and interest cost would be a decrease of 2.4%.

In addition to the non-contributory pension plans discussed above, the Company maintains a non-qualified pension plan which allow participants to retain the benefits to which they would have been entitled under the Company's non-contributory pension plan except for the federally mandated limits on these benefits or on the level of compensation on which these benefits may be calculated. The expense associated with this non-qualified plan was \$25 million, \$25 million and \$9 million in 2000, 2001 and 2002, respectively. Included in the net benefit cost in 2001 and 2002 is \$17 million and \$3 million, respectively, of expense related to Reliant Resources' participants, which is reflected in discontinued operations in the Statements of Consolidated Operations. The accrued benefit liability for the non-qualified pension plan was \$99 million and \$83 million at December 31, 2001 and 2002, respectively. In addition, these accrued benefit liabilities include the recognition of minimum liability adjustments of \$20 million as of December 31, 2001 and \$23 million as of December 31, 2002, which are reported as a component of other comprehensive income, net of income tax effects. Included in these amounts is \$30 million of accrued benefit liabilities for Reliant Resources' participants as of December 31, 2001. Of these liabilities, \$11 million represents the recognition of minimum

liability adjustments, which are reported as discontinued operations on the Statements of Consolidated Comprehensive Income, net of income tax effects.

(C) SAVINGS PLAN

The Company has an employee savings plan that includes a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code). Under the plan, participating employees may contribute a portion of their compensation, on a pre-tax or after-tax basis, generally up to a maximum of 16% of compensation. The Company matches 75% of the first 6% of each employee's compensation contributed. The Company may contribute an additional discretionary match of up to 50% of the first 6% of each employee's compensation contributed. These matching contributions are fully vested at all times. A substantial portion of the Company's match is initially invested in CenterPoint Energy common stock.

Participating employees may elect to invest all or a portion of their contributions to the plan in CenterPoint Energy common stock, to have dividends reinvested in additional shares or to receive dividend payments in cash on any investment in CenterPoint Energy common stock, and to transfer all or part of their investment in CenterPoint Energy common stock to other investment options offered by the plan.

The Company's savings plan includes an Employee Stock Ownership Plan (ESOP), which contains company stock, a portion of which is encumbered by a loan. Upon the release from the encumbrance of the loan, the Company may use released shares to satisfy its obligation to make matching contributions under the Company's savings plan. Generally, debt service on the loan is paid using all dividends on shares currently or formerly encumbered by the loan, interest earnings on funds held in trust and cash contributions by the Company. Shares of

CenterPoint Energy common stock are released from the encumbrance of the loan based on the proportion of debt service paid during the period.

The Company recognizes benefit expense equal to the fair value of the shares committed to be released. The Company credits to unearned shares the original purchase price of shares committed to be released to plan participants with the difference between the fair value of the shares and the original purchase price recorded to common stock. Dividends on allocated shares are recorded as a reduction to retained earnings. Dividends on unallocated shares are recorded as a reduction of principal or accrued interest on the loan.

Share balances currently or formerly encumbered by a loan at December 31, 2001 and 2002 were as follows:

	DECEMBER 31,	
	2001	2002
Allocated shares transferred/distributed from the savings plan.....	2,740,328	5,943,297
Allocated shares.....	8,951,967	8,734,810
Unearned shares(1).....	7,069,889	4,915,577
	-----	-----
Total ESOP shares(1).....	18,762,184	19,593,684
	=====	=====
Fair value of unearned ESOP shares.....	\$187,493,456	\$41,782,405
	=====	=====

(1) During 2002, unearned shares and total shares were increased by 831,500 shares. This is due to additional shares purchased with proceeds from the sale of Reliant Resources common stock, which was received in connection with the Reliant Resources Distribution.

As a result of the ESOP, the savings plan has significant holdings of CenterPoint Energy common stock. As of December 31, 2002, an aggregate of 32,099,870 shares of CenterPoint Energy's common stock were held by the savings plan, which represented 30% of its investments. Given the concentration of the investments in

CenterPoint Energy's common stock, the savings plan and its participants have market risk related to this investment.

The Company's savings plan benefit expense was \$52 million, \$51 million and \$47 million in 2000, 2001 and 2002, respectively. Included in these amounts are \$5 million \$16 million and \$6 million of savings plan benefit expense for 2000, 2001 and 2002, respectively, related to Reliant Resources' participants, which is reflected as discontinued operations in the Statements of Consolidated Operations.

(D) POSTEMPLOYMENT BENEFITS

Net postemployment benefit costs for former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan) were \$2 million, \$6 million and \$12 million in 2000, 2001 and 2002, respectively.

The Company's postemployment obligation is presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(E) OTHER NON-QUALIFIED PLANS

The Company has in effect deferred compensation plans which permit eligible participants to elect each year to defer a percentage of that year's salary and

up to 100% of that year's annual bonus. In general, employees who attain the age of 60 during employment and participate in the Company's deferred compensation plans may elect to have their deferred compensation amounts repaid in (a) fifteen equal annual installments commencing at the later of age 65 or termination of employment or (b) a lump-sum distribution following termination of employment. Interest generally accrues on deferrals at a rate equal to the average Moody's Long-Term Corporate Bond Index plus 2%, determined annually until termination when the rate is fixed at the rate in effect for the plan year immediately prior to that in which a participant attains age 65. During 2000, 2001 and 2002, the Company recorded interest expense related to its deferred compensation obligation of \$14 million, \$17 million and \$11 million, respectively. Included in these amounts are \$1 million, \$4 million and \$0.2 million of interest expense for 2000, 2001 and 2002, respectively, related to Reliant Resources' participants, which is reflected as discontinued operations in the Statements of Consolidated Operations. The discounted deferred compensation obligation recorded by the Company was \$161 million and \$132 million as of December 31, 2001 and 2002, respectively.

The Company's obligations under other non-qualified plans are presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(F) OTHER EMPLOYEE MATTERS

As of December 31, 2002, approximately 38% of the Company's employees are subject to collective bargaining agreements. Three of these agreements, covering approximately 24% of the Company's employees, will expire in 2003.

(13) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS AND GUARANTEES

Environmental Capital Commitments. CenterPoint Energy anticipates investing up to \$131 million in capital and other special project expenditures between 2003 and 2007 for environmental compliance. CenterPoint Energy anticipates expenditures to be as follows (in millions):

2003.....	\$ 98
2004.....	33
2005.....	--
2006(1).....	--
2007(1).....	--

Total	\$131
	=====

(1) NOx control estimates for 2006 and 2007 have not been finalized.

Fuel and Purchased Power. Fuel commitments include several long-term coal, lignite and natural gas contracts related to Texas power generation operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2002 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" or do not meet the definition of a derivative. Minimum payment obligations for coal and transportation agreements that extend through 2012 are approximately \$292 million in 2003, \$165 million in 2004, \$169 million in 2005, \$174 million in 2006 and \$167 million in 2007. Purchase commitments related to lignite mining and lease agreements and purchased power are not material to CenterPoint Energy's operations. Prior to January 1, 2002, CenterPoint Houston was allowed recovery of these costs through rates for electric service. As of December 31, 2002, some of these contracts are above market. CenterPoint Energy anticipates that stranded costs associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Texas electric

restructuring law. For information regarding the Texas electric restructuring law, see Note 4(a).

CenterPoint Energy's other long-term fuel supply commitments, which have various quantity requirements and durations, are not considered material either individually or in the aggregate to its results of operations or cash flows.

(b) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2002, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions).

2003.....	\$ 31
2004.....	28
2005.....	26
2006.....	24
2007.....	23
2008 and beyond.....	131

Total.....	\$263
	=====

Total lease expense for all operating leases was \$46 million, \$45 million and \$43 million during 2000, 2001 and 2002, respectively.

(C) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

The Company's predecessor, Reliant Energy, and certain of its former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, the Company and its subsidiaries are entitled to be indemnified by Reliant Resources for any losses arising out of the lawsuits described under "California Class Actions and Attorney General Cases," "Long-Term Contract Class Action," "Washington and Oregon Class Actions," "Bustamante Price Reporting Class Action" and "Trading and Marketing Activities," including attorneys' fees and other costs. Pursuant to the indemnification obligation, Reliant Resources is defending the Company and its subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

California Class Actions and Attorney General Cases. Reliant Energy, Reliant Resources, Reliant Energy Services, Inc.(Reliant Energy Services), Reliant Energy Power Generation, Inc. (REPG) and several other subsidiaries of Reliant Resources, as well as two former officers and one present officer of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. While the plaintiffs allege various violations by the defendants of antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that the defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. All of these suits originally were filed in state courts in San Diego, San Francisco and Los Angeles Counties. The suits in San Diego and Los Angeles Counties were consolidated and removed to the federal district court in San Diego, but on December 13, 2002, that court remanded the suits to the state courts. Prior to the remand, Reliant Energy was voluntarily dismissed from two of the suits. Several parties, including the Reliant defendants, have appealed the judge's remand decision. The United States court of appeals has entered a briefing schedule that could result in oral arguments by summer of 2003. Proceedings

before the state court are expected to resume during the first quarter of 2003.

In March and April 2002, the California Attorney General filed three complaints, two in state court in San Francisco and one in the federal district court in San Francisco, against Reliant Energy, Reliant Resources, Reliant Energy Services and other subsidiaries of Reliant Resources alleging, among other matters, violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California independent systems operator, charging unjust and unreasonable prices for electricity, in violation of antitrust laws in connection with the acquisition in 1998 of electric generating facilities located in California. The complaints variously seek restitution and disgorgement of alleged unlawful profits for sales of electricity, civil penalties and fines, injunctive relief against unfair competition, and undefined equitable relief. Reliant Resources has removed the two state court cases to the federal district court in San Francisco where all three cases are now pending.

Following the filing of the Attorney General cases, seven additional class action cases were filed in state courts in Northern California. Each of these purports to represent the same class of California ratepayers, assert the same claims as asserted in the other California class action cases, and in some instances repeat as well the allegations in the Attorney General cases. All of these cases have been removed to federal district court in San Diego. Reliant Resources has not filed an answer in any of these cases. The plaintiffs have agreed to a stipulated order that would require the filing of a consolidated complaint by early March 2003 and the filing of the defendants' initial response to the complaint within 60 days after the consolidated complaint is

filed. In all of these cases filed before the federal and state courts in California, the Reliant defendants have filed or intend to file motions to dismiss on grounds that the claims are barred by federal preemption and the filed rate doctrine.

Long-Term Contract Class Action. In October 2002, a class action was filed in state court in Los Angeles against Reliant Energy and several subsidiaries of Reliant Resources. The complaint in this case repeats the allegations asserted in the California class actions as well as the Attorney General cases and also alleges misconduct related to long-term contracts purportedly entered into by the California Department of Water Resources. None of the Reliant entities, however, has a long-term contract with the Department of Water Resources. This case has been removed to federal district court in San Diego.

Washington and Oregon Class Actions. In December 2002, a lawsuit was filed in Circuit Court of the State of Oregon for the County of Multnomah on behalf of a class of all Oregon purchasers of electricity and natural gas. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries are named as defendants, along with many other electricity generators and marketers. Like the other lawsuits filed in California, the plaintiffs claim the defendants manipulated wholesale power prices in violation of state and federal law. The plaintiffs seek injunctive relief and payment of damages based on alleged overcharges for electricity. Also in December 2002, a nearly identical lawsuit on behalf of consumers in the State of Washington was filed in federal district court in Seattle. Reliant Resources has removed the Oregon suit to federal district court in Portland. It is anticipated that before answering the lawsuits, the defendants will file motions to dismiss on the grounds that the claims are barred by federal preemption and by the filed rate doctrine.

Bustamante Price Reporting Class Action. In November 2002, California Lieutenant Governor Cruz Bustamante filed a lawsuit in state court in Los Angeles on behalf of a class of purchasers of gas and power alleging violations of state antitrust laws and state laws against unfair and unlawful business practices based on an alleged conspiracy to report and publish false and fraudulent natural gas prices with an intent to affect the market prices of natural gas and electricity in California. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries are named as defendants, along with other market participants and publishers of some of the price indices. The complaint seeks injunctive relief, compensatory and punitive damages, restitution of alleged overpayment, disgorgement of all profits and funds acquired by the alleged unlawful conduct, costs of suit and attorneys' fees. The parties have

stipulated to a schedule that would require the defendants to respond to the complaint by March 31, 2003. The Reliant defendants intend to deny both their alleged violation of any laws and their alleged participation in any conspiracy.

Trading and Marketing Activities. Reliant Energy has been named as a party in several lawsuits and regulatory proceedings relating to the trading and marketing activities of its former subsidiary, Reliant Resources.

In June 2002, the SEC advised Reliant Resources and Reliant Energy that it had issued a formal order in connection with its investigation of Reliant Resources' financial reporting, internal controls and related matters. The Company understands that the investigation is focused on Reliant Resources' same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price and certain structured transactions. These matters were previously the subject of an informal inquiry by the SEC. Reliant Resources and the Company are cooperating with the SEC staff.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the ERCOT market on and after July 31, 2001, Reliant Energy and Reliant Resources have provided information to the Texas Utility Commission concerning their scheduling and trading activities.

Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court in Houston. Reliant Resources and certain of its executive officers are named as defendants. Reliant Energy is also named as a

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defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the Reliant Resources Offering. One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The consolidated amended complaint seeks monetary relief purportedly on behalf of three classes: (1) purchasers of Reliant Energy common stock from February 3, 2000 to May 13, 2002; (2) purchasers of Reliant Resources common stock on the open market from May 1, 2001 to May 13, 2002; and (3) purchasers of Reliant Resources common stock in the Reliant Resources Offering or purchasers of shares that are traceable to the Reliant Resources Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of Reliant Resources for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to inflate artificially trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law. The defendants expect to file a motion to transfer this lawsuit to the federal district court in Houston and to consolidate this lawsuit with the consolidated lawsuits described above.

The Company believes that none of these lawsuits has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to any of the plaintiffs.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as defendants in all of the lawsuits. Two of the lawsuits have been dismissed without prejudice. The remaining lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the

plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered by a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of the Company. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused the Company to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off and the Reliant Resources Offering. The complaint seeks monetary damages on behalf of the Company as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. The defendants have filed a motion to dismiss this case on the ground that the plaintiff did not make an adequate demand on the Company before filing suit.

A Special Litigation Committee appointed by the Company's board of directors is investigating similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The letter states that the shareholder and other shareholders are considering filing a derivative suit on behalf of the Company and demands that the Company take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. The Special Litigation Committee is reviewing the demands made by the shareholder to determine if these proposed actions are in the best interests of the Company.

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Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. A jury trial of the original claimant cities (but not the class of cities) in the 269th Judicial District Court for Harris County, Texas, ended in April 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, it found in favor of the original claimant cities on three issues, and assessed a total of \$4 million in actual and \$30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, the state court of appeals in Houston rendered an opinion reversing the judgment against the Company and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The judgment of the court of appeals is subject to motions for rehearing and an appeal to the Texas Supreme Court.

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy cannot be assessed until judgments are final and no longer subject to appeal. However, the court of appeals' ruling appears to be consistent with Texas Supreme Court opinions. The Company estimates the range of possible outcomes for recovery by the plaintiffs in the Three Cities case to be between \$-0- and \$18 million inclusive of interest and attorneys' fees.

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 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 the Company, 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 the alleged overcharges, exemplary damages and penalties. The Company denies that CERC 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 condition, results of operations or cash flows.

Environmental Matters

Clean Air Standards. Based on current limitations of the Texas Commission on Environmental Quality regarding NOx emissions in the Houston area, the Company anticipates it will have invested at least \$682 million for emission control equipment through 2005, including \$551 million expended from January 1, 1999 through December 31, 2002, with possible additional expenditures after 2005. NOx control estimates for 2006 and 2007 have not been finalized.

The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission has determined that the Company's emission control plan is the most effective control option and that up to \$699 million is eligible for cost recovery, the exact amount to be determined in the 2004 true-up proceeding. In addition, the Company is required to provide \$16.2 million in funding for certain NOx reduction projects associated with East Texas pipeline companies. These funds are also eligible for cost recovery.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against REGT, Reliant Energy Pipeline Services, Inc., RERC Corp., Reliant Energy Services, 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

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similar allegations against the Company, 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, the Company 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 CERC's Minnesota service territory, two of which CERC believes were neither owned or 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 other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP 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.

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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. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, 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 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.

Other Matters

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(d) OPERATIONS AGREEMENT WITH CITY OF SAN ANTONIO

Texas Genco has a joint operating agreement with the City Public Service Board of San Antonio (CPS) to share savings from the joint dispatching of each party's generating assets. Dispatching the two generating systems jointly results in savings of fuel and related expenses because there is a more efficient utilization of each party's lowest cost resources. The two parties equally share the savings resulting from joint dispatch. The agreement terminates in 2009.

(e) NUCLEAR INSURANCE

Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain \$2.75 billion in property

damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was \$9.3 billion as of December 31, 2002. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(f) NUCLEAR DECOMMISSIONING

Texas Genco contributed \$14.8 million per year in 2000 and 2001 to trusts established to fund its share of the decommissioning costs for the South Texas Project. In 2002, Texas Genco contributed \$2.9 million to these trusts. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the NRC relating to Texas Genco's nuclear decommissioning trusts. Additionally, Texas Genco's board of directors and CenterPoint Energy's board of directors have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of \$163 million as of December 31, 2002, of which approximately 49% were fixed-rate debt securities and the remaining 51% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 3(k). In July 1999, an outside consultant estimated Texas Genco's portion of decommissioning costs to be approximately \$363 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs

associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers. CenterPoint Energy is contractually obligated to indemnify Texas Genco from and against any obligations relating to the decommissioning not otherwise satisfied through collections by CenterPoint Houston. For information regarding the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(b).