SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): DECEMBER 7, 2004

CENTERPOINT ENERGY, INC.
(Exact name of registrant as specified in its charter)

TEXAS	1-31447	74-0694415
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 OTHER EVENTS.

Exhibits 99.1, 99.2 and 99.3 to this Current Report on Form 8-K, which are incorporated by reference herein, give effect to certain reclassifications necessary to present CenterPoint Energy's electric generation operations (Texas Genco) as discontinued operations (as a result of the pending sale of these operations announced on July 21, 2004) in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" within CenterPoint Energy's historical consolidated financial statements, Selected Financial Data, and Management's Discussion and Analysis of Financial Condition and Results of Operations as reported in its Annual Report on Form 10-K dated March 12, 2004.

These reclassifications above did not affect net income for any of the five years ended December 31, 2003.

Exhibit 99.2 also includes certain financial statement schedules of CenterPoint Energy which have been updated to give effect to certain reclassifications discussed in Note 1(b) to CenterPoint Energy's consolidated financial statements.

The financial statement disclosures, management estimates and forward-looking statements contained in this Current Report on Form 8-K have not been updated to reflect current developments subsequent to December 31, 2003.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

99.1 Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data

99.2 Financial Statements and Supplementary Data of the Company

99.3 Independent Auditors' Consent

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 hereunto duly authorized.

CENTERPOINT ENERGY, INC.

Date: December 7, 2004

By: /s/ James S. Brian

James S. Brian
Senior Vice President and
Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data
99.2	Financial Statements and Supplementary Data of the Company
99.3	Independent Auditors' Consent

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

The following discussion and analysis should be read in combination with our consolidated financial statements included in Exhibit 99.2.

OVERVIEW

BACKGROUND

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, please read " -- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock." Our indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which owns and operates 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 in January 2003.

On July 21, 2004, we and Texas Genco announced a definitive agreement for Texas Genco LLC (previously known as GC Power Acquisition LLC), a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. The consolidated financial statements present these 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). Accordingly, the consolidated financial statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

At the time of Reliant Energy's corporate restructuring, it owned an 83% interest in Reliant Resources, Inc. (Reliant Resources). On September 30, 2002, we distributed that interest to our shareholders (the Reliant Resources Distribution).

BUSINESS SEGMENTS

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. CenterPoint Energy is first and foremost an energy delivery company and it is our intention to remain focused on this segment of the energy business. The results of our business operations are significantly impacted by weather, customer growth, cost management and rate proceedings before regulatory agencies. 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. The Texas generation operations, previously reported in the Electric Generation business segment, have been reclassified as discontinued operations in these financial statements due to the pending sale of Texas Genco as

discussed above. Our transmission and distribution services remain subject to rate regulation and are reported in the Electric Transmission & Distribution business segment as are impacts of generation-related stranded costs recoverable by the regulated utility. 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. Our reportable business segments include:

Electric Transmission and Distribution

Our electric transmission and distribution operations provide electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf coast that has a population of approximately 4.7 million people and includes Houston.

CenterPoint Houston transports electricity from power plants to substations and from one substation to another and to retail electric customers in locations throughout the control area managed by the Electric Reliability Council of Texas, Inc. (ERCOT) on behalf of retail electric providers. ERCOT is an intrastate network which serves as the regional reliability coordinating council for member electric power systems in Texas. The ERCOT market represents approximately 85% of the demand for power in Texas and is one of the nation's largest power markets. Transmission services are provided under tariffs approved by the Public Utility Commission of Texas (the Texas Utility Commission).

Operations include construction and maintenance of electric transmission and distribution facilities, metering services, outage response services and other call center operations. Distribution services are provided under tariffs approved by the Texas Utility Commission.

Natural Gas Distribution

CERC owns and operates our natural gas distribution business, which engages in intrastate natural gas sales to, and natural gas transportation for, approximately 3 million residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. These operations are regulated as natural gas utility operations. Its operations also include non-rate regulated retail gas sales to and transportation services for commercial and industrial customers in the six states listed above as well as several other Midwestern states.

Pipelines and Gathering

CERC's pipelines and gathering business operates two interstate natural gas pipelines as well as gas gathering facilities and also provides pipeline services. CERC's pipeline operations provides natural gas transportation, natural gas storage and pipeline services to customers principally in Arkansas, Louisiana, Missouri and Oklahoma. CERC's gathering operations are conducted principally in Arkansas, Louisiana, Oklahoma and Texas.

Other Operations

Our Other Operations business segment includes office buildings and other real estate used in our business operations and other corporate operations which support all of our business operations.

EXECUTIVE SUMMARY

2003 HIGHLIGHTS

Our operating performance and cash flow from continuing operations for 2003 compared to 2002 were affected by:

- continued customer growth with the addition of nearly 85,000 metered electric and gas customers since December 2002, or an annualized 2% growth;

- an increase of $33 million in revenues in the natural gas distribution operations from rate increases;

- an increase of $69 million in operation and maintenance expense related to CenterPoint Houston's final fuel reconciliation;

- an increase of $52 million in pension, employee benefit and insurance costs;

- an increase of $29 million in interest expense; and

- a reduction of $70 million in capital expenditures.

Net income for 2003 includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" ($80 million after-tax gain, or $0.26 earnings per basic and diluted share), which is included in discontinued operations related to Texas Genco.

In 2003, we accessed the capital markets to raise approximately $4 billion. We used these proceeds to repay maturing debt, refinance higher coupon debt, pay down our short-term credit facilities and enhance our liquidity.

CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003 (Texas Genco Distribution). As a result of the Texas Genco Distribution, CenterPoint Energy recorded an impairment charge of $399 million, which is reflected as a regulatory asset representing stranded costs on our consolidated balance sheet as of December 31, 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 $399 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. 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.

SIGNIFICANT EVENTS IN 2004

During 2004, we expect to complete additional steps in a process that began when Texas adopted legislation designed to deregulate and restructure the electric utility industry in the state. That legislation (Texas electric restructuring law) required integrated electric utilities to separate their generating, transmission and distribution and retail sales functions pursuant to plans approved by the Texas Utility Commission.

The Texas electric restructuring law contains provisions that allow our transmission and distribution utility, CenterPoint Houston, to recover the amount by which the market value of our generating assets, as determined by the Texas Utility Commission under a formula prescribed in the law, is below the regulatory net book value for those assets as of the end of 2001. It also allows CenterPoint Houston to recover certain other transition costs, such as a final fuel reconciliation balance, regulatory assets and the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and actual market prices for generation as determined in the state-mandated capacity auctions during that period (called the ECOM true-up). Those amounts, and certain other adjustments, are to be determined by the Texas Utility Commission in a proceeding that will begin on March 31, 2004 (2004 True-Up Proceeding). 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, although, under its rules the Texas Utility Commission can extend the 150 day deadline for good cause. After the Texas Utility Commission determines the amount of the true-up components (the true-up balance) that the utility may recover, the utility will recover those amounts through a transition charge added to its transmission and distribution rates. Assuming receipt of a timely final order from the Texas Utility Commission, we expect to begin earning a non-cash rate of return on the true-up balance in the third quarter of 2004. We intend to seek authority from the Texas Utility Commission to securitize all or a portion of the true-up balance as early as the fourth quarter of 2004 through the issuance of transition bonds and to be in a position to issue those bonds by early 2005. Transition bonds would be issued through a special purpose entity that would be a subsidiary of CenterPoint Houston, but they would be non-recourse to CenterPoint Houston. Any portion of the true-up balance not securitized by transition bonds will be recovered through a non-bypassable competition transition charge. CenterPoint Houston will distribute recovery of the true-up components not used to repay indebtedness to us through either the payment of dividends or the settlement of intercompany payables. We

can then move funds back to CenterPoint Houston, either through equity or intercompany debt, in order to maintain CenterPoint Houston's capital structure at the appropriate levels.

As discussed above, in accordance with the Texas electric restructuring law, we expect to seek recovery of substantial amounts for the true-up components. Determination of the amounts actually recovered will be made by the Texas Utility Commission in a proceeding in which we expect that various parties will challenge our claims, potentially resulting in an award of less than the full amount to which we believe CenterPoint Houston is entitled. An ultimate determination or a settlement at an amount less than that recorded in our financial statements could lead to a charge that would materially adversely affect our results of operations, financial condition and cash flows.

For some time, we have expected to monetize our remaining 81% interest in Texas Genco in 2004. In January 2004, Reliant Resources did not exercise its option to purchase our 81% interest in Texas Genco. On July 21, 2004, we and Texas Genco announced a definitive agreement for Texas Genco LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. The transaction will be accomplished in two steps. In the first step, expected to be completed in the fourth quarter of 2004, Texas Genco will purchase the approximately 19% of its shares owned by the public (other than shares held by shareholders who validly perfect their dissenters' rights under Texas law) in a cash-out merger at a price of $47.00 per share, without interest and less any applicable withholding taxes (Public Company Merger). Following the Public Company Merger, a subsidiary of Texas Genco that will own Texas Genco's coal, lignite and gas-fired generation plants will merge with a subsidiary of Texas Genco LLC. The closing of the first step of the transaction is subject to several conditions, including the receipt of debt financing under the financing commitments obtained by Texas Genco LLC. In the second step of the transaction, expected to take place in the first half of 2005 following receipt of approval by the Nuclear Regulatory Commission, Texas Genco, the principal remaining asset of which, at that time, will be its interest in the South Texas Project Electric Generating Station, will merge with another subsidiary of Texas Genco LLC. Cash proceeds to us are expected to be approximately $2.2 billion from the first step of the transaction and $700 million from the second step of the transaction, for total cash proceeds of approximately $2.9 billion for our 81% interest. The proceeds from the monetization of Texas Genco are expected to be used to repay indebtedness.

Resolution of the 2004 True-Up Proceeding and the monetization of our remaining interest in Texas Genco are the two most significant events facing the company in 2004. These events are expected to result in aggregate proceeds of over $5 billion based on the Texas Utility Commission rules. We have committed to use these proceeds to repay our indebtedness. Either or both events could, however, lead to charges against earnings. If those charges occur early in the year or are of sufficient magnitude, they could reduce our earnings below the level required for us to continue paying our current quarterly dividends out of current earnings as required under our Securities and Exchange Commission (SEC) financing order. We expect to file an application with the SEC under the 1935 Act requesting an order authorizing us, in the event we are required to take such a charge against earnings, to pay quarterly dividends out of capital or unearned surplus.

The Texas Utility Commission issued a final order in October 2001 (October 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 over-mitigated 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 2001 Order, CenterPoint Houston was required to refund $1.1 billion through excess mitigation credits to certain retail electric customers during a seven-year period which began in January 2002, and which amount to approximately $238 million per year. Amounts refunded will be considered in the 2004 True-Up Proceeding, and we expect that such refunds will be discontinued as a result of the 2004 True-Up Proceeding.

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 2004 True-Up Proceeding provides for a clawback of the "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 entered into in connection with the September

30, 2002 spin-off of our interest in Reliant Resources to our shareholders, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the 2004 True-Up Proceeding. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal $150 times the number of residential customers served by Reliant Resources in CenterPoint Houston's service territory, less the number of residential customers served by Reliant Resources outside CenterPoint Houston's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be $175 million. We expect that before, or upon, issuance of a final order in the 2004 True-Up Proceeding we will receive the clawback payment from Reliant Resources, which will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

The 2004 True-Up Proceeding will include the balance from the final fuel reconciliation proceeding for the fuel component of electric rates. Prior to the beginning of competition, fuel costs were a component of electric rates and those costs were reviewed and reconciled periodically by the Texas Utility Commission. Although the final fuel reconciliation is a separate proceeding that is currently underway, the final fuel over- or under- recovery balance will be included in the 2004 True-Up Proceeding, either as a reduction to or increase in the amount to be recovered.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, CenterPoint Houston appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as CenterPoint Houston contends is required by law. On January 30, 2004, the Texas Supreme Court granted our petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. We have not accrued interest income on stranded costs in our consolidated financial statements, but estimate such interest income would be material to our consolidated financial statements.

We recorded non-cash ECOM revenue of $697 million in 2002 and $661 million in 2003. We are no longer permitted under the Texas electric restructuring law to record non-cash ECOM revenue in 2004. The reduction in interest costs that should result from the use of proceeds of securitization and monetization to reduce debt, to the extent received in 2004, should help offset the resulting reductions in earnings, but both the amount and timing of these securitization and monetization efforts is a function of the regulatory process described above.

PROCESS IMPROVEMENT INITIATIVE

In late 2002, we launched a company-wide process improvement effort designed to examine key aspects of how we conduct our business, and identify, design and implement improvements to enhance service quality, improve customer satisfaction and reduce costs. In 2003, we identified our core business processes and established process teams. Progress was made in understanding existing processes and identifying opportunities for improvement. Over the next several years, we plan to design and implement processes that will improve productivity and efficiency, reduce our cost structure and enhance service to our customers.

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 or be affected by numerous factors including:

- the timing and outcome of the regulatory process leading to the determination and recovery of the true-up components and the securitization of these amounts;

- the timing and results of the monetization of our interest in Texas Genco;

- 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:

    - allowed rates of return;

    - rate structures;

    - recovery of investments; and

    - operation and construction of facilities;

- termination of accruals of ECOM true-up after 2003;

- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;

- the timing and extent of changes in commodity prices, particularly natural gas;

- changes in interest rates or rates of inflation;

- weather variations and other natural phenomena;

- the timing and extent of changes in the supply of natural gas;

- commercial bank and financial market conditions, our access to capital, the 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;

- inability of various counterparties to meet their obligations to us;

- non-payment for our services due to financial distress of our customers, including Reliant Resources;

- the outcome of the pending securities lawsuits against us, Reliant Energy and Reliant Resources;

- the ability of Reliant Resources to satisfy its obligations to us, including indemnity obligations and obligations to pay the "price to beat" clawback; and

- other factors discussed in Item 1 of the CenterPoint Energy Annual Report on Form 10-K for the year ended December 31, 2003 under "Risk Factors."

SELECTED FINANCIAL DATA

The following table presents selected financial data with respect to our consolidated financial condition and consolidated results of operations and should be read in conjunction with our consolidated financial statements and the related notes.

	YEAR ENDED DECEMBER 31,				
	1999(1)	2000	2001(2)	2002	2003(3)(4)
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Revenues	$ 4,694	$ 6,949	$ 7,148	$ 6,438	$ 7,790
Income from continuing operations before extraordinary item and cumulative effect of accounting change	1,389	52	357	482	409
Discontinued operations	(241)	395	565	(4,402)	75
Extraordinary item, net of tax	334	--	--	--	--
Cumulative effect of accounting change, net of tax	--	--	58	--	--
Net income (loss) attributable to common shareholders	$ 1,482	$ 447	$ 980	$ (3,920)	$ 484
Basic earnings (loss) per common share:					
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$ 4.88	$ 0.18	$ 1.23	$ 1.62	$ 1.35
Discontinued operations	(0.85)	1.39	1.95	(14.78)	0.24
Extraordinary item, net of tax	1.17	--	--	--	--
Cumulative effect of accounting change, net of tax	--	--	0.20	--	--
Basic earnings (loss) per common share	$ 5.20	$ 1.57	$ 3.38	$ (13.16)	$ 1.59
Diluted earnings (loss) per common share:					
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$ 4.85	$ 0.18	$ 1.22	$ 1.61	$ 1.34
Discontinued operations	(0.84)	1.38	1.93	(14.69)	0.24
Extraordinary item, net of tax	1.17	--	--	--	--
Cumulative effect of accounting change, net of tax	--	--	0.20	--	--
Diluted earnings (loss) per common share	$ 5.18	$ 1.56	$ 3.35	$ (13.08)	$ 1.58
Cash dividends paid per common share	$ 1.50	$ 1.50	$ 1.50	$ 1.07	$ 0.40
Dividend payout ratio from continuing operations	31%	833%	122%	66%	30%
Return from continuing operations on average common equity	35.9%	1.0%	6.8%	11.8%	25.7%
Ratio of earnings from continuing operations to fixed charges	4.96	1.30	1.87	1.95	1.78
At year-end:					
Book value per common share	$ 18.70	$ 19.10	$ 22.77	$ 4.74	$ 5.77
Market price per common share	$ 22.88	$ 43.31	$ 26.52	$ 8.01	$ 9.69
Market price as a percent of book value	122%	227%	116%	169%	168%
Assets of discontinued operations	$ 10,134	$ 18,479	$ 16,840	$ 4,594	$ 4,244
Total assets	$ 29,318	$ 35,936	$ 32,020	$ 20,635	$ 21,461
Short-term borrowings	$ 3,012	$ 4,799	$ 3,469	$ 347	$ 63
Long-term debt obligations, including current maturities	$ 7,997	$ 4,989	$ 4,712	$ 9,996	$ 10,939
Trust preferred securities(5)	$ 705	$ 705	$ 706	$ 706	$ --
Cumulative preferred stock	$ 10	$ 10	$ --	$ --	$ --
Capitalization:					
Common stock equity	38%	49%	55%	12%	14%
Trust preferred securities	5%	6%	6%	6%	--
Long-term debt, including current maturities	57%	45%	39%	82%	86%
Capital expenditures, excluding discontinued operations	$ 788	$ 653	$ 802	$ 566	$ 497

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(1) 1999 net income includes an aggregate non-cash, unrealized gain on our indexed debt securities and our Time Warner Inc. (Time Warner) investment, of $1.2 billion (after-tax), or $4.09 earnings per basic share and $4.08 earnings per diluted share. For additional information on the indexed debt securities and Time Warner investment, please read Note 7 to our consolidated financial statements. The extraordinary item in 1999 is a gain related to regulatory assets recorded by our Electric Transmission & Distribution business segment as a result of an impairment of certain generation-related regulatory assets of our Electric Generation business segment in accordance

with SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71."

(2) 2001 net income includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ($58 million after-tax gain, or $0.20 earnings per basic and diluted share). For additional information related to the cumulative effect of accounting change, please read Note 5 to our consolidated financial statements.

(3) 2003 net income includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" ($80 million after-tax gain, or $0.26 earnings per basic and diluted share) which is included in discontinued operations related to Texas Genco. For additional information related to the cumulative effect of accounting change, please read Note 2(n) to our consolidated financial statements.

(4) Resolution of the 2004 True-Up Proceeding and monetization of our remaining interest in Texas Genco could materially impact our results of operations, financial condition and cash flows. Additionally, we are no longer permitted under the Texas electric restructuring law to record non-cash ECOM revenue in 2004. For more information on these and other matters currently affecting us, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Executive Summary -- Significant Events in 2004."

(5) The subsidiary trusts that issued trust preferred securities have been deconsolidated as a result of the adoption of FIN 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46) and the subordinated debentures issued to those trusts are now reported as long-term debt as of December 31, 2003. For additional information related to the adoption of FIN 46, please read Note 2(n) to our consolidated financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

All dollar amounts in the tables that follow are in millions, except for per share amounts.

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
Revenues	$ 7,148	$ 6,438	$ 7,790
Operating Expenses	(6,086)	(4,998)	(6,435)
Operating Income	1,062	1,440	1,355
Gain (Loss) on Time Warner Investment	(70)	(500)	106
Gain (Loss) on Indexed Debt Securities	58	480	(96)
Interest Expense and Distribution on Trust Preferred Securities	(542)	(712)	(741)
Other Income (Expense), net	50	46	(10)
Income From Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Change	558	754	614
Income Tax Expense	(201)	(272)	(205)
Income From Continuing Operations Before Cumulative Effect of Accounting Change	357	482	409
Discontinued Operations, net of tax	565	(4,402)	75
Cumulative Effect of Accounting Change, net of tax	58	--	--
Net Income (Loss) Attributable to Common Shareholders	$ 980	$ (3,920)	$ 484
Basic Earnings Per Share:			
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.23	$ 1.62	$ 1.35
Discontinued Operations, net of tax	1.95	(14.78)	0.24
Cumulative Effect of Accounting Change, net of tax	0.20	--	--
Net Income (Loss) Attributable to Common Shareholders	$ 3.38	$ (13.16)	$ 1.59
Diluted Earnings Per Share:			
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.22	$ 1.61	$ 1.34
Discontinued Operations, net of tax	1.93	(14.69)	0.24
Cumulative Effect of Accounting Change, net of tax	0.20	--	--
Net Income (Loss) Attributable to Common Shareholders	$ 3.35	$ (13.08)	$ 1.58

2003 COMPARED TO 2002

Income from Continuing Operations. We reported income from continuing operations of $409 million ($1.34 per diluted share) for 2003 compared to $482 million ($1.61 per diluted share) for 2002. The decrease in income from continuing operations for 2003 compared to 2002 of $73 million was primarily due to a $61 million increase in expenses related to CenterPoint Houston's final fuel reconciliation, a $36 million reduction in non-cash ECOM revenue and an increase in interest expense of $29 million related to continuing operations due to higher borrowing costs and increased debt levels as discussed below.

2002 COMPARED TO 2001

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of $482 million ($1.61 per diluted share) for 2002 compared to $357 million ($1.22 per diluted share) for 2001. The $125 million increase in income from continuing operations before the cumulative effect of accounting change for 2002 compared to 2001 was primarily due to an increase in operating income from our Electric Transmission and Distribution business segment of $233 million as a result of the transition to a deregulated ERCOT market in 2002, which includes non-cash ECOM revenue of $697 million in 2002, increases in operating income of our Natural Gas Distribution and Pipelines and Gathering business segments of $84 million, primarily resulting from rate increases at our local gas distribution companies, and the absence of $49 million in goodwill amortization expense as a result of adopting SFAS No. 142, "Goodwill and Other Intangibles" (SFAS No. 142) in 2002. Offsetting the above increases was an increase in interest expense of $170 million related to continuing operations due to higher borrowing costs as discussed below.

Interest Expense And Distribution on Trust Preferred Securities. In 2002 and 2003, our $3.85 billion credit facility consisted of a revolver and a term loan. This facility was amended in October 2003 to a $2.35 billion credit facility, consisting of a revolver and a term loan. According to the terms of the $3.85 billion credit facility, any net cash proceeds received from the sale of Texas Genco were required to be applied to repay borrowings under the credit facility. According to the terms of the $2.35 billion credit facility, until such time as the facility has been reduced to $750 million, 100% of any net cash proceeds received from the sale of Texas Genco are required to be applied to repay borrowings under the credit facility and reduce the amount available under the credit facility. In accordance with Emerging Issues Task Force Issue No. 87-24 "Allocation of Interest to Discontinued Operations", we have reclassified interest to discontinued operations of Texas Genco based on net proceeds to be received from the sale of Texas Genco of $2.5 billion, and have applied the proceeds to the amount of debt assumed to be paid down in each respective period according to the terms of the respective credit facilities in effect for those periods. In periods where only the term loan was assumed to be repaid, the actual interest paid on the term loan was reclassified. In periods where a portion of the revolver was assumed to be repaid, the percentage of that portion of the revolver to the total outstanding balance was calculated, and that percentage was applied to the actual interest paid in those periods to compute the amount of interest reclassified.

Total interest expense incurred was $606 million, $764 million and $934 million in 2001, 2002 and 2003, respectively. We have reclassified $64 million, $52 million, and $193 million of interest expense for the years ended 2001, 2002, and 2003, respectively, based upon actual interest expense incurred within our discontinued operations and interest expense associated with debt that would have been required to be repaid as a result of our disposition of Texas Genco.

Cumulative Effect of Accounting Change, net of tax. The 2001 results reflect a $58 million after-tax non-cash gain from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). For additional discussion of the adoption of SFAS No. 133, please read Note 5 to our consolidated financial statements.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (in millions) for each of our business segments for 2001, 2002 and 2003. Some amounts from the previous years have been reclassified to conform to the 2003 presentation of the financial statements. These reclassifications do not affect consolidated net income.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
		(IN MILLIONS)	
Electric Transmission & Distribution	$ 863	$ 1,096	$ 1,020
Natural Gas Distribution	130	198	202
Pipelines and Gathering	137	153	158
Other Operations	(68)	(7)	(25)
Total Consolidated Operating Income	$ 1,062	$ 1,440	$ 1,355

ELECTRIC TRANSMISSION & DISTRIBUTION

The following tables provide summary data of our Electric Transmission & Distribution business segment, CenterPoint Houston, for 2001, 2002 and 2003 (in millions, except throughput data):

	YEAR ENDED DECEMBER 31,		
	2001(1)	2002	2003
Operating Revenues:			
Electric revenues	$ 2,100	$ 1,525	$ 1,463
ECOM revenues(2)	--	697	661
Total operating revenues	2,100	2,222	2,124
Operating Expenses:			
Operation and maintenance	650	642	636
Depreciation and amortization	299	271	270
Taxes other than income taxes	288	213	198
Total operating expenses	1,237	1,126	1,104
Operating Income	$ 863	$ 1,096	$ 1,020
Residential throughput (in GWh)	21,371	23,025	23,687
Total throughput (in GWh)(3)	71,325	69,585	70,815

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(1) Certain estimates and allocations have been used to separate historical (pre-January 2002) Electric Generation business segment data (which has been reclassified as discontinued operations) from the Electric Transmission & Distribution business segment data. As a result, there is no meaningful comparison for this business segment prior to 2002.

(2) In 2004, we will no longer be permitted under the Texas electric restructuring law to record non-cash ECOM revenue.

(3) Usage volumes for commercial and industrial customers are included in total throughput; however, the majority of these customers are billed on a peak demand (KW) basis and, as a result, revenues do not vary based on consumption.

2003 Compared to 2002. The Electric Transmission & Distribution business segment reported a decrease in operating income of $76 million for 2003 compared to 2002. Increased revenues from customer growth ($40 million) were more than offset by transition period revenues that only occurred in 2002 ($90 million) and decreased industrial demand, resulting in an overall decrease in electric revenues from the regulated electric transmission and distribution business of $62 million. Additionally, non-cash ECOM revenue decreased $36 million as a result of higher operating margins from sales of generation based on the state-mandated capacity auctions. Operation and maintenance expenses decreased in 2003 compared to 2002 primarily due to the absence of purchased power costs that occurred in 2002 during the transition period to deregulation ($48 million), a decrease in labor costs as a result of work force reductions in 2002 ($13 million), non-recurring contract services expense primarily related to transition to deregulation in 2002 ($10 million) and lower bad debt expense related to transition revenues in 2002 ($10 million). These decreases were partially offset by an increase in expenses related to CenterPoint Houston's final fuel reconciliation ($69 million) and an increase in benefits expense primarily due to increased pension costs ($18 million). Taxes other than income taxes decreased $15 million primarily due to the absence of gross receipts tax associated with transition period revenue in the first quarter of 2002 ($9 million).

2002 Compared to 2001. The Electric Transmission & Distribution business segment, reported an increase in operating income of $233 million for 2002 as compared to 2001, of which $697 million related to non-cash ECOM revenue recorded pursuant to the Texas electric restructuring law. Electric revenues from the regulated electric transmission and distribution business decreased $575 million primarily as a result of the transition to a deregulated ERCOT market in 2002. Throughput declined 2% during 2002 as compared to 2001. The decrease was primarily due to reduced energy delivery in the industrial sector resulting from self-generation by several major customers, partially offset by increased residential usage primarily due to non-weather related factors. Additionally, despite a slowing economy, total metered customers continued to grow at an annual rate of approximately 2% during the year.

Operation and maintenance expenses decreased in 2002 as compared to 2001 primarily due to a decrease in factoring expense as a result of the termination of an agreement under which the Electric Transmission & Distribution business segment had sold its customer accounts receivable ($77 million) and decreased transmission line losses in 2002 as this became a cost of retail electric providers in 2002 ($16 million), partially offset by purchased power costs related to operation of the regulated utility during the transition period to deregulation ($48 million), an increase in benefits expense ($25 million) which included severance costs in connection with a reduction in work force by CenterPoint Houston in 2002 and expenses related to CenterPoint Houston's final fuel reconciliation ($18 million). Depreciation and amortization decreased in 2002 as compared to 2001 primarily as a result of decreased amortization relating to certain regulatory assets ($64 million) partially offset by increased amortization related to transition property associated with the transition bonds issued in November 2001 ($35 million). Taxes other than income decreased largely as a result of lower gross receipts taxes ($64 million), which became the responsibility of the retail electric providers upon deregulation.

NATURAL GAS DISTRIBUTION

The following table provides summary data of our Natural Gas Distribution business segment for 2001, 2002 and 2003 (in millions, except throughput data):

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
Operating Revenues	$ 4,742	$ 3,960	$ 5,435
Operating Expenses:			
Natural gas	3,814	2,995	4,428
Operation and maintenance	541	539	560
Depreciation and amortization	147	126	136
Taxes other than income taxes	110	102	109
Total operating expenses	4,612	3,762	5,233
Operating Income	$ 130	$ 198	$ 202
Throughput (in billion cubic feet (Bcf)):			
Residential and commercial	310	324	324
Industrial	50	47	49
Transportation	49	57	50
Non-rate regulated commercial and industrial	445	471	511
Total Throughput	854	899	934

2003 Compared to 2002. Our Natural Gas Distribution business segment's operating income increased $4 million in 2003 compared to 2002 primarily due to higher revenues from rate increases implemented late in 2002 ($33 million), improved margins from our unregulated commercial and industrial sales ($6 million) and continued customer growth with the addition of over 38,000 customers since December 2002 ($6 million). These increases were partially offset by decreased revenues as a result of a decrease in the estimate of margins earned on unbilled revenues ($11 million). Additionally, operating income was negatively impacted by higher employee benefit expenses primarily due to increased pension costs ($13 million), certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared to being included in interest expense in the prior year ($7 million) and increased bad debt expense primarily due to higher gas prices ($9 million).

2002 Compared to 2001. Our Natural Gas Distribution business segment's operating income increased $68 million in 2002 compared to 2001 primarily as a result of improved margins from rate increases in 2002, a 5% increase in throughput and changes in estimates of unbilled revenues and deferred gas costs, which reduced operating margins in 2001 ($37 million). Depreciation and amortization decreased primarily as a result of the discontinuance of goodwill amortization in 2002 in accordance with SFAS No. 142 as further discussed in Note 2(d) to our consolidated financial statements ($31 million).

PIPELINES AND GATHERING

The following table provides summary data of our Pipelines and Gathering business segment for 2001, 2002 and 2003 (in millions, except throughput data):

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
Operating Revenues	$ 415	$ 374	$ 407
Operating Expenses:			
Natural gas	79	32	61
Operation and maintenance	121	130	129
Depreciation and amortization	58	41	40
Taxes other than income taxes	20	18	19
Total operating expenses	278	221	249
Operating Income	$ 137	$ 153	$ 158
Throughput (Bcf):			
Natural gas sales	18	14	9
Transportation	819	845	794
Gathering	300	287	292
Elimination(1)	(9)	(9)	(4)
Total Throughput	1,128	1,137	1,091

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(1) Elimination of volumes both transported and sold.

2003 Compared to 2002. Our Pipelines and Gathering business segment's operating income increased $5 million in 2003 compared to 2002. The increase was primarily a result of increased margins (revenues less fuel costs) due to higher commodity prices ($8 million), improved margins from new transportation contracts to power plants ($7 million) and improved margins from enhanced services in our gas gathering operations ($4 million), partially offset by higher pension, employee benefit and other miscellaneous expenses ($14 million). Project work expenses included in operation and maintenance expense decreased and were offset by a corresponding decrease in revenues billed for these services ($14 million).

2002 Compared to 2001. Our Pipelines and Gathering business segment's operating income increased $16 million in 2002 compared to 2001 primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 2(d) to our consolidated financial statements ($17 million).

OTHER OPERATIONS

The following table provides summary data for our Other Operations business segment for 2001, 2002 and 2003 (in millions):

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
Operating Revenues	$ 4	$ 30	$ 28
Operating Expenses	72	37	53
Operating Loss	$ (68)	$ (7)	$ (25)

2003 Compared to 2002. Our Other Operations business segment's operating loss in 2003 compared to 2002 increased $18 million primarily due to changes in unallocated corporate costs in 2002 as compared to 2003.

2002 Compared to 2001. Our Other Operations business segment's operating loss decreased by $61 million in 2002 compared to 2001. The decrease was primarily due to reductions in unallocated corporate costs ($34 million) and reductions in corporate accruals, primarily benefits ($27 million).

DISCONTINUED OPERATIONS

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

consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution as described above on the CenterPoint Energy consolidated financial statements. The consolidated financial statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations in 2001 and 2002 in accordance with SFAS No. 144. We also recorded a $4.4 billion non-cash loss on disposal of these discontinued operations in 2002. This loss represents the excess of the carrying value of our net investment in Reliant Resources over the market value of Reliant Resources common stock.

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. 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 all of our international investments. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

In November 2003, we sold a component of our Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. We recorded an after-tax loss of $1 million from the sale of CEMS in the fourth quarter of 2003. We recorded an after-tax loss in discontinued operations of $16 million ($25 million pre-tax) during the second quarter of 2003 to record the impairment of the CEMS long-lived assets based on the impending sale and to record one-time termination benefits. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

On July 21, 2004, we and Texas Genco announced a definitive agreement for Texas Genco LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in operating, investing and financing activities for 2001, 2002 and 2003 is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
Cash provided by (used in):			
Operating activities	$ 1,517	$ 455	$ 650
Investing activities	(803)	(513)	(504)
Financing activities	(1,044)	723	(434)
Discontinued operations	265	(379)	72

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities in 2003 increased $195 million compared to 2002 primarily due to higher income tax refunds received of $241 million, partially offset by higher interest paid related to outstanding borrowings of $130 million.

Net cash provided by operating activities in 2002 decreased $1.1 billion compared to 2001. This decrease primarily resulted from refunds of excess mitigation credits to ratepayers in 2002 of $224 million, a $464 million decrease in CenterPoint Houston's operating income excluding non-cash income from ECOM, and an increase of $116 million in interest paid related to outstanding borrowings. These decreases were partially offset by lower income taxes paid of $85 million.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $9 million during 2003 compared to 2002 due primarily to decreased capital expenditures in our Electric Transmission & Distribution business segment primarily resulting from process improvements that included revised construction and design standards.

Net cash used in investing activities decreased $290 million during 2002 compared to 2001 due primarily to the decrease in capital expenditures in our Electric Transmission & Distribution business segment related to building infrastructure in preparation for deregulation.

CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

In 2003, debt payments exceeded net loan proceeds by $338 million. Additionally, common stock dividends paid by us in 2003 were $202 million less than in 2002. Since the beginning of 2003, the terms of our credit facility have limited the common stock dividend to $0.10 per share per quarter.

In 2002, net loan proceeds exceeded debt payments by $1.1 billion. In 2001, debt payments exceeded net loan proceeds by $702 million. Additionally, common stock dividends paid in 2002 were $109 million less than in 2001.

FUTURE SOURCES AND USES OF CASH

Our liquidity and capital requirements will be affected by:

- capital expenditures;

- debt service requirements;

- various regulatory actions; and

- working capital requirements.

The 1935 Act regulates our financing ability, as more fully described in "--Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock" below.

The following table sets forth our capital expenditures for 2003, and estimates of our capital requirements for 2004 through 2008 (in millions):

	2003	2004	2005	2006	2007	2008
Electric Transmission & Distribution ...	$ 218	$ 282	$ 245	$ 258	$ 274	$ 257
Natural Gas Distribution	199	204	213	211	213	214
Pipelines and Gathering	66	104	136	88	96	50
Other Operations	14	10	9	9	9	10
Total	$ 497	$ 600	$ 603	$ 566	$ 592	$ 531

The following table sets forth estimates of our contractual obligations to make future payments for 2004 through 2008 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2004	2005	2006	2007	2008	2009 AND THEREAFTER
Long-term debt, including current portion ...	$ 10,925	$ 156	$ 1,731	$ 1,657	$ 67	$ 572	$ 6,742
Capital leases	13	4	5	3	--	--	1
Short-term borrowing, including credit facilities	63	63	--	--	--	--	
Operating leases(1)	87	31	16	14	10	7	9
Non-trading derivative liabilities	14	11	2	1	--	--	--
Pension funding requirements	450	--	75	14	220	141	--
Other commodity commitments(2)	2,151	1,045	565	344	171	24	2
Total contractual cash obligations	$ 13,703	$ 1,310	$ 2,394	$ 2,033	$ 468	$ 744	$ 6,754

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(1) For a discussion of operating leases, please read Note 12(b) to our consolidated financial statements.

(2) For a discussion of other commodity commitments, please read Note 12(a) to our consolidated financial statements.

In October 2001, CenterPoint Houston was required by the Texas Utility Commission 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. 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 $238 million. Under the Texas electric restructuring law, a final determination of these stranded costs will occur in the 2004 True-Up Proceeding.

Off-Balance Sheet Arrangements. Other than operating leases, we have no off-balance sheet arrangements. However, we do participate in a receivables factoring arrangement. In connection with CERC's November 2002 amendment and extension of its $150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary, which we consolidate, for the sole purpose of buying receivables created by CERC and selling those receivables to an unrelated third party. 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 Sheet. On June 25, 2003, we elected to reduce the receivables facility to $100 million and in January 2004, the $100 million receivables facility was replaced with a $250 million receivables facility terminating in January 2005. For additional information regarding this transaction please read Note 2(i) to our consolidated financial statements.

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

In 2003 and February 2004, we and our subsidiaries completed several capital market transactions which converted a significant amount of our interest payment obligations from floating rates to fixed rates and refinanced current maturities of long-term debt. The proceeds of the debt transactions in 2003 were primarily used to refinance existing short-term debt with long-term debt, refinance maturing debt and pay related debt issuance costs. Our 2003 capital market transactions included the following:

ISSUANCE DATE	BORROWER	SECURITY	PRINCIPAL AMOUNT	INTEREST RATE	MATURITY DATE
			(IN THOUSANDS)		
March 2003	CenterPoint Houston	General Mortgage Bonds	$762,275	5.700-6.950%	March 2013 and 2033
March and April 2003	CERC Corp.	Senior Notes	762,000	7.875%	April 2013
April 2003	CenterPoint Energy	Pollution Control Bonds	175,000	7.750-8.000%	December 2018 and May 2029
May 2003	CenterPoint Energy	Convertible Senior Notes	575,000	3.750%	May 2023
May 2003	CenterPoint Houston	General Mortgage Bonds	200,000	5.600%	July 2023

ISSUANCE DATE	BORROWER	SECURITY	PRINCIPAL AMOUNT	INTEREST RATE	MATURITY DATE
			(IN THOUSANDS)		
May 2003	CenterPoint Energy	Senior Notes	400,000	5.875-6.850%	June 2008 and 2015
July 2003	CenterPoint Energy	Pollution Control Bonds	150,850	4.000%	August and October 2015
September 2003	CenterPoint Energy	Senior Notes	200,000	7.250%	September 2010
September 2003	CenterPoint Houston	General Mortgage Bonds	300,000	5.750%	January 2014
November 2003	CERC Corp.	Senior Notes	160,000	5.950%	January 2014
December 2003	CenterPoint Energy	Convertible Senior Notes	255,000	2.875%	January 2024

In 2003, we and our subsidiaries also entered into new credit facilities which increased liquidity, reduced financing costs and extended the termination dates of the facilities they replaced. As of December 31, 2003, we had the following credit facilities:

DATE EXECUTED	COMPANY	SIZE OF FACILITY AT DECEMBER 31, 2003	AMOUNT OUTSTANDING AT DECEMBER 31, 2003	TERMINATION DATE	TYPE OF FACILITY
			(IN MILLIONS)		
March 25, 2003	CERC Corp.	$ 200	$ 63	March 23, 2004	Revolver
October 7, 2003	CenterPoint Energy	1,425	537	October 7, 2006	Revolver
October 7, 2003	CenterPoint Energy	923	923	October 7, 2006(1)	Term Loan
December 23, 2003	Texas Genco, LP	75	--	December 21, 2004	Revolver

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(1) Mandatory quarterly payments through September 30, 2005 of $2.5 million per quarter.

CERC Corp. is currently in discussions with banks seeking to arrange a replacement revolving credit facility and expects to have such a facility in place prior to the termination date of the existing facility. In the first quarter of 2004, CERC replaced its $100 million receivables facility with a $250 million committed one-year receivables facility. The bankruptcy remote subsidiary established in 2002 continues to buy CERC's receivables and sell them to an unrelated third party.

Additionally, in February 2004, $56 million aggregate principal amount of collateralized 5.60% pollution control bonds due 2027 and $44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of CenterPoint Houston. The pollution control bonds are collateralized by general mortgage bonds of CenterPoint Houston with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to redeem two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of $100 million issued on our behalf. CenterPoint Houston's 6.7% first mortgage bonds which collateralized our payment obligations under the refunded pollution control bonds were retired in connection with the March 2004 redemption of the refunded pollution control bonds. CenterPoint Houston's 6.7% notes payable to us were extinguished upon the redemption of the refunded pollution control bonds.

On December 31, 2003, we had temporary external investments of $66 million, of which $45 million were held by Texas Genco and are included in current assets of discontinued operations in the Consolidated Balance Sheets.

At December 31, 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 principal amount of debt securities.

Cash Requirements in 2004. 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 2004, excluding Texas Genco, include the following:

- approximately $600 million of capital expenditures;

- an estimated $238 million in refunds by CenterPoint Houston of excess mitigation credits;

- dividend payments on CenterPoint Energy common stock;

- $51 million of maturing long-term debt, including $41 million of transition bonds; and

- maturity of any borrowings under CERC's $200 million revolving credit agreement.

We expect that revolving credit borrowings and anticipated cash flows from operations will be sufficient to meet our cash needs for 2004. Our $2.3 billion credit facility provides that, until such time as the credit facility has been reduced to $750 million, all of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Houston's term loan, and the net cash proceeds of any sales of the common stock of Texas Genco that we own or of material portions of Texas Genco's assets shall be applied to repay borrowings under our credit facility and reduce the amount available under the credit facility. Our $2.3 billion credit facility contains no other restrictions with respect to our use of proceeds from financing activities. CenterPoint Houston's term loan requires the proceeds from the issuance of transition bonds to be used to reduce the term loan unless refused by the lenders. CenterPoint Houston's term loan, subject to certain exceptions, limits the application of proceeds from capital markets transactions by CenterPoint Houston over $200 million to repayment of debt existing in November 2002.

CenterPoint Houston will distribute recovery of the true-up components not used to repay indebtedness to us through either the payment of dividends or the settlement of intercompany payables. We can then move funds back to CenterPoint Houston, either through equity or intercompany debt, in order to maintain CenterPoint Houston's capital structure at the appropriate levels. Under the orders described under "-- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock," CenterPoint Houston's member's equity as a percentage of total capitalization must be at least 30%, although the SEC has permitted the percentage to be below this level for other companies taking into account non-recourse securitization debt as a component of capitalization.

Impact on Liquidity of a Downgrade in Credit Ratings. As of March 1, 2004, 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:

	MOODY'S		S&P		FITCH	
COMPANY/INSTRUMENT	RATING	OUTLOOK(1)	RATING	OUTLOOK(2)	RATING	OUTLOOK(3)
CenterPoint Energy Senior Unsecured Debt........	Ba2	Negative	BBB-	Negative	BBB-	Negative
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds)........................	Baa2	Negative	BBB	Negative	BBB+	Negative
CERC Corp. Senior Debt..........................	Ba1	Negative	BBB	Negative	BBB	Negative

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(1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.

(2) An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term.

(3) A "negative" outlook from Fitch encompasses a one-to-two year horizon as to the likely ratings direction.

On February 27, 2004, Moody's announced that it was downgrading our senior unsecured debt to Ba2 from Ba1. Moody's explained in its announcement that the action was to reflect the structural differences in rights and claims afforded to our senior secured bank lenders, who benefit from their priority claim on proceeds from the monetization of Texas Genco and from the up-streaming of proceeds resulting from securitization of the true-up components at CenterPoint Houston. Moody's announced that its action concluded a review for possible downgrade of us that it initiated in October 2003. Moody's retained a negative ratings outlook for us and for our subsidiaries CERC Corp. and CenterPoint Houston, but their ratings remain unchanged.

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 borrowing costs under CERC's $200 million revolving credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions. If we were unable to maintain an investment-grade rating from at least one rating agency, as a registered public utility holding company we would be required to obtain further approval from the SEC for any additional capital markets transactions as more fully described in "-- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock" below. Additionally, a decline in credit ratings could increase cash collateral requirements that could exist in connection with certain contracts relating to gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution business segment.

Our revolving credit 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 revolving credit 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.

In September 1999, we issued 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. 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 Time Warner Inc. (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 noteholders might decide to exchange their ZENS notes for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the shares of TW Common that we own or from other sources. We own shares of TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS note exchanges result in a cash outflow because deferred tax liabilities related to the ZENS notes and TW Common shares become current tax obligations when ZENS notes are exchanged and TW Common shares are sold.

CenterPoint Energy Gas Services, Inc. (CEGS), a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers which 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, CEGS 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 December 31, 2003, the senior unsecured debt of CERC Corp. was rated BBB by S&P and Ba1 by Moody's. We estimate that as of December 31, 2003, unsecured credit limits extended to CEGS by counterparties could aggregate $62 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Under our revolving credit facility and our term loan, 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 the indenture governing our senior notes, 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. As of February 29, 2004, we had issued five series of senior notes aggregating $1.4 billion in principal amount under this indenture. A default by CenterPoint Energy would not trigger a default under our subsidiaries' debt instruments.

Pension Plan. As discussed in Note 10 to the consolidated financial statements, we maintain a non-contributory pension plan covering substantially all employees. Employer contributions are based on actuarial computations that establish the minimum contribution required under the Employee Retirement Income Security Act of 1974 (ERISA) and the maximum deductible contribution for income tax purposes. No contributions were made to the plan during

2002. At December 31, 2002 and 2003, the projected benefit obligation exceeded the market value of plan assets by $496 million and $498 million, respectively. In September 2003, we elected to make a $22.7 million contribution to our pension plan. As a result, we will not be required to make any contributions to our pension plan prior to 2005. Changes in interest rates and the market values of the securities held by the plan during 2004 could materially, positively or negatively, change our under-funded status and affect the level of pension expense and required contributions in 2005 and beyond. Plan assets used to satisfy pension obligations have been adversely impacted by the decline in equity market values prior to 2003.

Under the terms of our pension plan, we reserve the right to change, modify or terminate the plan. Our funding policy is to review amounts annually and contribute an amount at least equal to the minimum contribution required under ERISA.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," changes in pension obligations and assets may not be immediately recognized as pension costs in the income statement, but generally are recognized in future years over the remaining average service period of plan participants. As such, significant portions of pension costs recorded in any period may not reflect the actual level of benefit payments provided to plan participants.

Pension costs were $39 million, $35 million and $90 million for 2001, 2002 and 2003, respectively. Included in the net pension cost in 2001 was $45 million of expense related to Reliant Resources' participants. For 2002, a pension benefit of $4 million was recorded related to Reliant Resources' participants. Pension benefit and expense for Reliant Resources' participants are reflected in the Statement of Consolidated Operations as discontinued operations. For 2001, pension benefit of $1 million was recorded for Texas Genco participants. In addition, included in the costs for 2002 and 2003 are $15 million and $17 million, respectively, of expense related to Texas Genco participants. Pension benefit and expense for Texas Genco participants are reflected in the Statement of Consolidated Operations as discontinued operations.

Additionally, we maintain a non-qualified benefit restoration plan which allows participants to retain the benefits to which they would have been entitled under our 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, $9 million and $8 million in 2001, 2002 and 2003, respectively. Included in the 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 calculation of pension expense and related liabilities requires the use of assumptions. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from the assumptions. Two of the most critical assumptions are the expected long-term rate of return on plan assets and the assumed discount rate.

As of December 31, 2003, the expected long-term rate of return on plan assets was 9.0%. We believe that our actual asset allocation on average will approximate the targeted allocation and the estimated return on net assets. We regularly review our actual asset allocation and periodically rebalance plan assets as appropriate.

As of December 31, 2003, the projected benefit obligation was calculated assuming a discount rate of 6.25%, which is a .5% decline from the 6.75% discount rate assumed in 2002. The discount rate was determined by reviewing yields on high-quality bonds that receive one of the two highest ratings given by a recognized rating agency and the expected duration of pension obligation specific to the characteristics of our plan.

Pension expense for 2004, including the benefit restoration plan, is estimated to be $82 million based on an expected return on plan assets of 9.0% and a discount rate of 6.25% as of December 31, 2003. If the expected return assumption were lowered by .5% (from 9.0% to 8.5%), 2004 pension expense would increase by approximately $6 million. Similarly, if the discount rate were lowered by .5% (from 6.25% to 5.75%), this assumption change would increase our projected benefit obligation, pension liabilities and 2004 pension expense by approximately $121 million, $111 million and $10 million, respectively. In addition, the assumption change would result in an additional charge to comprehensive income during 2004 of $72 million, net of tax. Included in estimated pension expense for 2004 is $12 million related to Texas Genco's participants, which is included in income from discontinued operations in the Statements of Consolidated Operations.

Primarily due to the decline in the market value of the pension plan's assets and increased benefit obligations associated with a reduction in the discount rate, the value of the plan's assets is less than our accumulated benefit obligation. As a result, we recorded a non-cash minimum liability adjustment, which resulted in a charge to other comprehensive income during the fourth quarter of 2002 of $414 million, net of tax. In December 2003, we recorded a minimum liability adjustment in the Consolidated Balance Sheet ($72 million decrease in pension liability) to reflect a liability equal to the unfunded accumulated benefit obligation, with an offsetting credit of $47 million to equity, net of a $25 million deferred tax effect.

Future changes in plan asset returns, assumed discount rates and various other factors related to the pension plan will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

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

- cash collateral requirements that could exist in connection with certain contracts, including 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 Reliant Resources' indemnity obligations to us and our subsidiaries.

Money Pool. We have two "money pools" 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. Prior to October 2003, we had only one money pool. Following Texas Genco's certification by the FERC as an "exempt wholesale generator" under the 1935 Act in October 2003, it could no longer participate with our regulated subsidiaries in the same money pool. In October 2003, we established a second money pool in which Texas Genco and certain of our other unregulated subsidiaries can participate.

The net funding requirements of the money pool in which our regulated subsidiaries participate are expected to be met with loans and revolving credit facilities. Except in an emergency situation (in which case we could provide funding pursuant to applicable SEC rules), we would be required to obtain approval from the SEC to issue and sell securities for purposes of funding Texas Genco's operations via the money pool established in October 2003. The terms of both money pools are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and under an order from the SEC relating to our financing activities and those of our subsidiaries on June 30, 2003 (June 2003 Financing Order).

Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock. Factors affecting our ability to issue securities, pay dividends on our common stock or take other actions that affect our capitalization include:

- covenants and other provisions in our credit or loan facilities and the credit facilities and receivables facility of our subsidiaries 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 its 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 $2.3 billion revolving credit and term loan facility 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 certain debt issuances and certain asset sales. These facilities include certain restrictive covenants. We and our subsidiaries are in compliance with such covenants.

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 other than Texas Genco. The 1935 Act, among other things, limits our ability and the ability of our regulated subsidiaries 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.

The June 2003 Financing Order is effective until June 30, 2005. Additionally, we have received several subsequent orders which provide additional financing authority. These orders establish limits on the amount of external debt and equity securities that can be issued by us and our regulated subsidiaries without additional authorization but generally permit us to refinance our existing obligations and those of our regulated subsidiaries. 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 after giving effect to our capital markets transactions in 2003 and the first two months of 2004. The orders also permit utilization of undrawn credit facilities at CenterPoint Energy and CERC. As of March 1, 2004:

- CenterPoint Energy is authorized to issue an additional aggregate $250 million of preferred stock, preferred securities and equity-linked securities, $160 million of debt and 199 million shares of common stock;

- CenterPoint Houston is authorized to issue an additional aggregate $161 million of debt and an aggregate $250 million of preferred stock and preferred securities; and

- CERC is authorized to issue an additional $2 million of debt and an additional aggregate $250 million of preferred stock and preferred securities.

The SEC has reserved jurisdiction over, and must take further action to permit, the issuance of $478 million of additional debt at CenterPoint Energy, $480 million of additional debt at CERC and $250 million of additional debt at CenterPoint Houston.

The orders require that if we or any of our regulated subsidiaries issue 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 the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds.

The 1935 Act limits the payment of dividends to payment from current and retained earnings unless specific authorization is obtained to pay dividends from other sources. The SEC has reserved jurisdiction over payment of $500 million of dividends from CenterPoint Energy's unearned surplus or capital. Further authorization would be required to make those payments. As of December 31, 2003, we had a retained deficit on our Consolidated Balance Sheet. We expect to pay dividends out of current earnings. If as a result of the 2004 True-Up Proceeding or any other event we are required to take a charge against our net income, our current earnings could be reduced below the level which would enable us to pay the quarterly dividend on our common stock under our current SEC financing order. We expect to file an application with the SEC under the 1935 Act requesting an order authorizing us, in the event that we are required to take such a charge against our net income, to pay quarterly dividends out of capital or

unearned surplus. The June 2003 Financing Order requires that CenterPoint Houston and CERC maintain a ratio of common equity to total capitalization of thirty percent (30%).

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 power sales in the ERCOT market, 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. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements. We believe the following accounting policies involve the application of critical accounting estimates. Accordingly, these accounting estimates 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. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to $2.1 billion of recoverable electric generation plant mitigation assets (stranded costs) and $1.4 billion of ECOM true-up as of December 31, 2003. The stranded costs include $1.1 billion of previously recorded accelerated depreciation and $841 million of previously redirected depreciation as well as $399 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 these regulatory assets.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

We review the carrying value of our long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable, and annually for goodwill as required by SFAS No. 142. Unforeseen events and changes in circumstances and market condition and

material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques.

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. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2(n) to the consolidated financial statements for a discussion of new accounting pronouncements that affect us.

Exhibit 99.2

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF THE COMPANY

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
REVENUES	$ 7,148,046	$ 6,437,505	$ 7,789,681
EXPENSES:			
Fuel and cost of gas sold	3,781,199	2,953,871	4,297,914
Operation and maintenance	1,374,145	1,242,472	1,334,271
Depreciation and amortization	509,061	457,608	465,571
Taxes other than income taxes	421,786	343,811	336,512
Total	6,086,191	4,997,762	6,434,268
OPERATING INCOME	1,061,855	1,439,743	1,355,413
OTHER INCOME (EXPENSE):			
Gain (loss) on Time Warner investment	(70,215)	(499,704)	105,820
Gain (loss) on indexed debt securities	58,033	480,027	(96,473)
Interest expense and distribution on trust preferred securities	(541,879)	(711,812)	(741,087)
Other, net	50,080	45,955	(9,838)
Total	(503,981)	(685,534)	(741,578)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	557,874	754,209	613,835
Income Tax Expense	(201,253)	(272,246)	(205,064)
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	356,621	481,963	408,771
DISCONTINUED OPERATIONS:			
Income from Reliant Resources, net of tax	557,451	99,465	--
Income (loss) from Other Operations, net of tax	(52,453)	246	(2,674)
Income (loss) from Texas Genco, net of tax	142,757	(113,136)	138,658
Minority interest on income from Reliant Resources	(82,373)	(17,308)	--
Minority interest on income from Texas Genco	--	--	(47,646)
Loss on disposal of Reliant Resources	--	(4,371,464)	--
Loss on disposal of Other Operations, net of tax	--	--	(13,442)
Total	565,382	(4,402,197)	74,896
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	58,556	--	--
INCOME (LOSS) BEFORE PREFERRED DIVIDENDS	980,559	(3,920,234)	483,667
PREFERRED DIVIDENDS	858	--	--
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 979,701	$ (3,920,234)	$ 483,667
BASIC EARNINGS PER SHARE:			
Income from Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.23	$ 1.62	$ 1.35
Income (Loss) from Discontinued Operations	1.95	(14.78)	0.24
Cumulative Effect of Accounting Change, net of tax	0.20	--	--
Net Income (Loss) Attributable to Common Shareholders	$ 3.38	$ (13.16)	$ 1.59
DILUTED EARNINGS PER SHARE:			
Income from Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.22	$ 1.61	$ 1.34
Income (Loss) from Discontinued Operations	1.93	(14.69)	0.24
Cumulative Effect of Accounting Change, net of tax	0.20	--	--
Net Income (Loss) Attributable to Common Shareholders	$ 3.35	$ (13.08)	$ 1.58

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
	(IN THOUSANDS OF DOLLARS)		
Net income (loss) attributable to common shareholders	$ 979,701	$(3,920,234)	$ 483,667
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment (net of tax of $6,873, $223,060 and $25,467)	12,764	(414,254)	47,296
Cumulative effect of adoption of SFAS No. 133 (net of tax of $20,511)	38,092	--	--
Net deferred gain (loss) from cash flow hedges (net of tax of $23,794, $25,192 and $15,405)	(15,549)	(69,615)	21,973
Reclassification of deferred loss (gain) from cash flow hedges realized in net income (net of tax of $18,978, $13,539 and $3,588)	(59,055)	39,705	9,015
Other comprehensive income (loss) from discontinued operations (net of tax of $84,576, $86,787 and $366)	(157,069)	161,176	680
Other comprehensive income (loss)	(180,817)	(282,988)	78,964
Comprehensive income (loss)	$ 798,884	$(4,203,222)	$ 562,631

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2002	DECEMBER 31, 2003
	(IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 303,704	$ 86,922
Investment in Time Warner common stock	283,486	389,302
Accounts receivable, net	621,335	566,260
Accrued unbilled revenues	354,497	395,351
Inventory	195,648	243,235
Non-trading derivative assets	27,275	45,897
Taxes receivable	67,659	228,746
Current assets of discontinued operations	273,740	301,765
Prepaid expense and other current assets	67,115	99,153
Total current assets	2,194,459	2,356,631
PROPERTY, PLANT AND EQUIPMENT, NET	8,019,585	8,084,924
OTHER ASSETS:		
Goodwill, net	1,740,510	1,740,510
Other intangibles, net	59,791	59,111
Regulatory assets	4,000,646	4,930,793
Non-trading derivative assets	3,866	11,273
Non-current assets of discontinued operations	4,320,069	3,942,296
Other	295,784	335,552
Total other assets	10,420,666	11,019,535
TOTAL ASSETS	$ 20,634,710	$ 21,461,090
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 347,002	$ 63,135
Current portion of long-term debt	808,796	160,792
Indexed debt securities derivative	224,881	321,352
Accounts payable	528,568	588,883
Taxes accrued	149,799	154,916
Interest accrued	197,086	164,521
Non-trading derivative liabilities	26,387	8,036
Regulatory liabilities	168,173	186,239
Accumulated deferred income taxes, net	285,214	345,870
Deferred revenues	219	1,887
Current liabilities of discontinued operations	362,518	332,125
Other	271,616	274,505
Total current liabilities	3,370,259	2,602,261
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	1,631,887	2,166,032
Unamortized investment tax credits	59,468	61,197
Non-trading derivative liabilities	873	3,330
Benefit obligations	816,400	818,061
Regulatory liabilities	959,421	1,358,030
Non-current liabilities of discontinued operations	1,354,240	1,277,760
Other	1,127,053	457,255
Total other liabilities	5,949,342	6,141,665
LONG-TERM DEBT	9,187,019	10,777,934
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12)		
MINORITY INTEREST IN DISCONTINUED OPERATIONS	--	178,673
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	706,140	--
SHAREHOLDERS' EQUITY	1,421,950	1,760,557
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 20,634,710	$ 21,461,090

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
		(IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) attributable to common shareholders	$ 979,701	$ (3,920,234)	$ 483,667
Discontinued operations	(565,382)	4,402,197	(74,896)
Income from continuing operations and cumulative effect of accounting change, less preferred dividends	414,319	481,963	408,771
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	509,061	457,608	465,571
Deferred income taxes	(59,097)	346,777	508,749
Amortization of deferred financing costs	16,051	112,835	140,638
Investment tax credit	(5,248)	(5,225)	(7,431)
Cumulative effect of accounting change, net	(58,556)	--	--
Unrealized loss (gain) on Time Warner investment	70,215	499,704	(105,820)
Unrealized gain (loss) on indexed debt securities	(58,033)	(480,027)	96,473
Changes in other assets and liabilities:			
Accounts receivable and unbilled revenues, net	1,143,896	(217,965)	(109,861)
Inventory	934	29,741	(47,587)
Taxes receivable	130,878	(67,659)	(161,087)
Accounts payable	(1,035,813)	134,442	77,319
Fuel cost over (under) recovery/surcharge	422,672	250,191	25,420
Interest and taxes accrued	78,456	72,620	37,381
Net regulatory assets and liabilities	(46,371)	(1,062,130)	(772,604)
Non-trading derivatives, net	14,781	(144,478)	2,913
Other current assets	(16,082)	(38,130)	(37,100)
Other current liabilities	(63,439)	(63,813)	(23,638)
Other assets	96,405	(87,721)	29,048
Other liabilities	(101,757)	200,053	84,169
Other, net	63,388	36,434	38,547
Net cash provided by operating activities	1,516,660	455,220	649,871
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(801,734)	(566,162)	(496,392)
Proceeds from sale of Time Warner investment	--	43,419	--
Other, net	(1,672)	9,442	(8,037)
Net cash used in investing activities	(803,406)	(513,301)	(504,429)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings, net	(1,356,162)	668,386	(284,000)
Long-term revolving credit facility, net	--	--	(2,400,500)
Proceeds from long-term debt	1,296,779	1,320,723	3,796,529
Payments of long-term debt	(632,116)	(696,218)	(1,210,548)
Debt issuance costs	(10,608)	(196,830)	(239,978)
Payment of common stock dividends	(433,918)	(324,682)	(122,206)
Proceeds from issuance of common stock, net	100,430	12,994	9,349
Redemption of preferred stock	(10,227)	--	--
Increase in restricted cash related to securitization financing	(6,775)	--	--
Redemption of indexed debt securities	--	(45,085)	--
Other, net	8,878	(16,525)	17,079
Net cash provided by (used in) financing activities	(1,043,719)	722,763	(434,275)
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	265,206	(378,586)	72,051
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(65,259)	286,096	(216,782)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	82,867	17,608	303,704
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,608	$ 303,704	$ 86,922
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Payments:			
Interest	$ 517,460	$ 632,987	$ 762,613
Income taxes (refunds)	65,268	(20,228)	(261,538)

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

	2001		2002		2003	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
	(IN THOUSANDS OF DOLLARS AND SHARES)					
PREFERENCE STOCK, NONE OUTSTANDING	--	$ --	--	$ --	--	$ --
CUMULATIVE PREFERRED STOCK, $0.01 PAR VALUE; AUTHORIZED 20,000,000 SHARES						
Balance, beginning of year	97	9,740	--	--	--	--
Redemption of preferred stock	(97)	(9,740)	--	--	--	--
Balance, end of year	--	--	--	--	--	--
COMMON STOCK, $0.01 PAR VALUE; AUTHORIZED 1,000,000,000 SHARES						
Balance, beginning of year	299,914	2,999	302,944	3,029	305,017	3,050
Issuances related to benefit and investment plans	3,030	30	2,073	21	1,280	13
Balance, end of year	302,944	3,029	305,017	3,050	306,297	3,063
ADDITIONAL PAID-IN-CAPITAL						
Balance, beginning of year	--	3,254,191	--	3,894,272	--	3,046,043
Issuances related to benefit and investment plans	--	130,630	--	11,866	--	(31,364)
Gain (loss) on issuance of subsidiaries' stock	--	509,499	--	(12,835)	--	--
Distribution of Reliant Resources	--	--	--	(847,200)	--	--
Distribution of Texas Genco	--	--	--	--	--	(146,263)
Other	--	(48)	--	(60)	--	--
Balance, end of year	--	3,894,272	--	3,046,043	--	2,868,416
TREASURY STOCK						
Balance, beginning of year	(4,811)	(120,856)	--	--	--	--
Contribution to pension plan	4,512	113,336	--	--	--	--
Other	299	7,520	--	--	--	--
Balance, end of year	--	--	--	--	--	--
UNEARNED ESOP STOCK						
Balance, beginning of year	(8,639)	(161,158)	(7,070)	(131,888)	(4,916)	(78,049)
Issuances related to benefit plan	1,569	29,270	2,154	53,839	4,004	75,207
Balance, end of year	(7,070)	(131,888)	(4,916)	(78,049)	(912)	(2,842)
RETAINED EARNINGS (DEFICIT)						
Balance, beginning of year		2,520,350		3,176,533		(1,062,083)
Net income (loss)		979,701		(3,920,234)		483,667
Common stock dividends--$1.125 per share in 2001, $1.07 per share in 2002 and $0.40 per share in 2003		(323,518)		(318,382)		(121,617)
Balance, end of year		3,176,533		(1,062,083)		(700,033)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)						
Balance, beginning of year		(23,206)		(204,023)		(487,011)
Other comprehensive income (loss), net of tax:						
Minimum pension liability adjustment		12,764		(414,254)		47,296
Cumulative effect of adoption of SFAS No. 133		38,092		--		--
Net deferred gain (loss) from cash flow hedges		(15,549)		(69,615)		21,973
Reclassification of deferred loss (gain) from cash flow hedges realized in net income		(59,055)		39,705		9,015
Other comprehensive income (loss) from discontinued operations		(157,069)		161,176		680
Other comprehensive income (loss)		(180,817)		(282,988)		78,964
Balance, end of year		(204,023)		(487,011)		(408,047)
Total Shareholders' Equity		$6,737,923		$ 1,421,950		$ 1,760,557

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

(a) BACKGROUND

CenterPoint Energy, Inc. (CenterPoint Energy or the Company) 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.

On September 30, 2002, following Reliant Resources' initial public offering of approximately 20% of its common stock in May 2001, 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 and those of its subsidiaries other than Texas Genco Holdings, Inc. (Texas Genco). The 1935 Act, among other things, limits the ability of the Company and its regulated subsidiaries 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.

As of December 31, 2003, the Company's indirect wholly owned subsidiaries included:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in the 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 gas distribution systems. 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, which owns and operates a portfolio of generating assets located in Texas. CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003 (Texas Genco Distribution). As a result of the Texas Genco Distribution, CenterPoint Energy recorded an impairment charge of $399 million, which is reflected as a regulatory asset representing stranded costs in the Consolidated Balance Sheets as of December 31, 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 $399 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. Additionally, in connection with the Texas Genco Distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of $146 million in its Consolidated Balance Sheets in the first quarter of 2003.

On July 21, 2004, the Company and Texas Genco announced a definitive agreement for Texas Genco LLC (previously known as GC Power Acquisition LLC), a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash.

(b) CERTAIN RECLASSIFICATIONS

The consolidated financial statements presented herein have been revised to give effect to certain reclassifications within CenterPoint Energy's historical consolidated financial statements as reported in its Annual Report on Form

10-K for the year ended December 31, 2003 necessary to present Texas Genco's 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) as a result of the pending sale of Texas Genco subsequent to December 31, 2003. These reclassifications did not affect net income for any of the three years ended December 31, 2003.

(c) BASIS OF PRESENTATION

The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution on the CenterPoint Energy financial statements. The consolidated financial statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) 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). Accordingly, the consolidated financial statements for 2001 and 2002 reflect these operations as discontinued operations.

In 2003, the Company sold all of its remaining Latin America operations. The consolidated financial statements present these remaining Latin America operations as discontinued operations in accordance with SFAS No. 144.

In November 2003, the Company sold a component of its Other Operations business segment that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

On July 21, 2004, the Company and Texas Genco announced a definitive agreement for Texas Genco LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. The Company recorded an after-tax loss of $253 million in the third quarter of 2004 related to the sale of Texas Genco. In addition, as a result of this transaction, any future earnings of Texas Genco will be offset by an increase in the loss. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

The Company's reportable business segments include the following: Electric Transmission & Distribution, Natural Gas Distribution, Pipelines and Gathering and Other Operations. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility (Texas Genco) became a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. Texas Genco's operations have been reclassified as discontinued operations in these financial statements as discussed above. The remaining transmission and distribution function (CenterPoint Houston) is reported separately in the Electric Transmission & Distribution business segment. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers and non-rate regulated retail gas marketing operations to commercial and industrial customers. Pipelines and Gathering includes the interstate natural gas pipeline operations and the natural gas gathering and pipeline services businesses. Other Operations consists primarily of other corporate operations which support all of the Company's business operations.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) RECLASSIFICATIONS AND USE OF ESTIMATES

In addition to the items discussed in Note 3, some amounts from the previous years have been reclassified to conform to the 2003 presentation of financial statements. These reclassifications do not affect net income.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

(b) PRINCIPLES OF CONSOLIDATION

The accounts of CenterPoint Energy and its wholly owned and majority owned subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in consolidation. The Company uses the equity method of accounting for investments in entities in which the Company has an ownership interest between 20% and 50% and exercises significant influence. Other investments, excluding marketable securities, are generally carried at cost.

(c) REVENUES

The Company records revenue for electricity and natural gas sales and services to retail customers under the accrual method and these revenues are generally recognized upon delivery. Natural gas sales and services not billed by month-end are accrued based upon estimated purchased gas volumes, estimated lost and unaccounted for gas and currently effective tariff rates. The Pipelines and Gathering business segment records revenues as transportation services are provided. Energy sales and services not billed by month-end are accrued based upon estimated energy and services delivered.

(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, 2002	DECEMBER 31, 2003
		(IN MILLIONS)	
Electric transmission & distribution	5-75	$ 5,960	$ 6,085
Natural gas distribution	5-50	2,151	2,316
Pipelines and gathering	5-75	1,686	1,722
Other property	3-40	446	446
Total		10,243	10,569
Accumulated depreciation and amortization		(2,223)	(2,484)
Property, plant and equipment, net		$ 8,020	$ 8,085

For further information regarding removal costs previously recorded as a component of accumulated depreciation, see Note 2(n).

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.

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 (in millions, except per share amounts):

	YEAR ENDED DECEMBER 31, 2001
Reported income from continuing operations before cumulative effect of accounting change....	$ 357
Add: Goodwill amortization, net of tax....	49
Adjusted income from continuing operations before cumulative effect of accounting change....	$ 406
Basic Earnings Per Share:	
Reported income from continuing operations before cumulative effect of accounting change....	$ 1.23
Add: Goodwill amortization, net of tax....	0.17
Adjusted income from continuing operations before cumulative effect of accounting change....	$ 1.40
Diluted Earnings Per Share:	
Reported income from continuing operations before cumulative effect of accounting change....	$ 1.22
Add: Goodwill amortization, net of tax....	0.17
Adjusted income from continuing operations before cumulative effect of accounting change....	$ 1.39

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

	DECEMBER 31, 2002		DECEMBER 31, 2003	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Land Use Rights..............	$ 55	$ (11)	$ 55	$ (12)
Other........................	18	(2)	20	(4)
Total......................	$ 73	$ (13)	$ 75	$ (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 December 31, 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 rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for 2001, 2002 and 2003 was $1 million, $2 million and $2 million, respectively. Estimated amortization expense for the five succeeding fiscal years is as follows (in millions):

2004....	$ 4
2005....	1
2006....	1
2007....	1
2008....	1
Total....	$ 8

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

	DECEMBER 31, 2002 AND 2003
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 2003

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.

(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.

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2002 and 2003:

	DECEMBER 31,	
	2002	2003
	(IN MILLIONS)	
Recoverable Electric Generation-Related Regulatory Assets, net:		
Recoverable electric generation plant mitigation	$ 2,051	$ 2,116
Excess mitigation liability	(969)	(778)
Net electric generation plant mitigation asset	1,082	1,338
Excess cost over market (ECOM/capacity auction) true-up	697	1,357
Texas Genco distribution/impairment	--	399
Regulatory tax asset	175	119
Final fuel under/(over) recovery balance	64	(98)
Other 2004 True-Up Proceeding items	53	119
Total Recoverable Electric Generation-Related Regulatory Assets	2,071	3,234
Securitized regulatory asset	706	682
Unamortized loss on reacquired debt	58	80
Estimated removal costs	--	(647)
Other long-term regulatory assets/liabilities	38	38
Total	$ 2,873	$ 3,387

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. Because estimates of the fair value of Texas Genco are required, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs 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. See Note 4 for additional discussion of regulatory assets.

(f) DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation is computed using the straight-line method based on economic lives or a regulatory-mandated recovery period. Other amortization expense includes amortization of regulatory assets and other intangibles. See Notes 2(e) and 4(a) for additional discussion of these items.

The following table presents depreciation, goodwill amortization and other amortization expense for 2001, 2002 and 2003.

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
	(IN MILLIONS)		
Depreciation expense	$ 134	$ 387	$ 403
Goodwill amortization expense	49	--	--
Other amortization expense	326	71	63
Total depreciation and amortization expense	$ 509	$ 458	$ 466

(g) CAPITALIZATION OF INTEREST AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Allowance for funds used during construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is realized in cash through depreciation provisions included in rates for subsidiaries that apply SFAS No. 71. Interest and AFUDC for subsidiaries that apply SFAS No. 71 are capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives. During 2001, 2002 and 2003, the Company capitalized interest and AFUDC of $5 million, $5 million and $4 million, respectively.

(h) INCOME TAXES

The Company files a consolidated federal income tax return and follows a policy of comprehensive interperiod income tax allocation. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and are being amortized over the estimated lives of the related property. For additional information regarding income taxes, see Note 11.

(i) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are net of an allowance for doubtful accounts of $24 million and $31 million at December 31, 2002 and 2003, respectively. The provision for doubtful accounts in the Company's Statements of Consolidated Operations for 2001, 2002 and 2003 was $59 million, $26 million and $24 million, respectively.

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 receivables created by CERC and selling those receivables to an unrelated third party. This transaction was 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 2003, CERC had utilized $107 million and $100 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.

In the first quarter of 2004, CERC replaced the receivables facility with a $250 million committed one-year receivables facility. The bankruptcy remote subsidiary continues to buy CERC's receivables and sell them to an unrelated third party.

(j) INVENTORY

Inventory consists principally of materials and supplies, coal and lignite and natural gas. Inventories used in the production of electricity and in the retail natural gas distribution operations are primarily valued at the lower of average cost or market except for coal and lignite, which are valued under the last-in, first-out method.

	DECEMBER 31,	
	2002	2003
	(IN MILLIONS)	
Materials and supplies	$ 92	$ 83
Natural gas	103	160
Other	1	--
Total inventory	$ 196	$ 243

(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, 2002 and 2003, Texas Genco held debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of $163 million and $189 million, respectively, in the Company's Consolidated Balance Sheets in non-current assets of discontinued operations. Any unrealized losses or gains are accounted for as a non-current asset/liability of discontinued operations as Texas Genco will not benefit from any gains, and losses will be recovered through the rate-making process.

As of December 31, 2002 and 2003, the Company held an investment in Time Warner Inc. common stock, which was classified as a "trading" security. For information regarding this investment, see Note 7.

(l) ENVIRONMENTAL COSTS

The Company expenses or capitalizes environmental expenditures, as appropriate, depending on their future economic benefit. The Company expenses amounts that relate to an existing condition caused by past operations, and that do not have future economic benefit. The Company records undiscounted liabilities related to these future costs when environmental assessments and/or remediation activities are probable and the costs can be reasonably estimated.

(m) STATEMENTS OF CONSOLIDATED CASH FLOWS

For purposes of reporting cash flows, the Company considers cash equivalents to be short-term, highly liquid investments with maturities of three months or less from the date of purchase. In connection with the issuance of transition bonds in October 2001, the Company was required to establish restricted cash accounts to collateralize the bonds that were issued in this financing transaction. These restricted cash accounts are not available for withdrawal until the maturity of the bonds. Cash and Cash Equivalents does not include restricted cash. For additional information regarding the securitization financing, see Note 4(a).

(n) 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 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 which supply 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 $140 million and $40 million for reclamation of the lignite mine at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, the Company reversed the $140 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of $99 million offset by accumulated depreciation of $36 million as well as a retirement obligation of $187 million. The $16 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 $40 million it had previously recorded for the lignite mine reclamation and recorded a plant asset of $1 million as well as a retirement obligation of $4 million. The $37 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 nuclear decommissioning and lignite mine asset retirement obligations are related to Texas Genco and are presented as non-current liabilities of discontinued operations in the Consolidated Balance Sheets.

The Company's rate-regulated businesses recognize removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002 and 2003, these removal costs of $635 million and $647 million, respectively, have been reclassified from accumulated depreciation to other long-term liabilities and regulatory liabilities, respectively, in the Consolidated Balance Sheets. The Company's non-rate regulated businesses have previously recognized removal costs as a component of depreciation expense. As of December 31, 2002, these removal costs of $115 million are presented as non-current liabilities of discontinued operations related to Texas Genco in the Consolidated Balance Sheets. During the three months ended March 31, 2003, the Company reversed $115 million of previously recognized removal costs with respect to Texas Genco as a cumulative effect of accounting change. The total cumulative effect of accounting change from the adoption of SFAS No. 143 was $152 million ($80 million after-tax and minority interest) and is included in income from discontinued operations.

The following represents the pro-forma effect on the Company's net income for the year ended December 31, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002 (in millions, except per share amounts):

	YEAR ENDED DECEMBER 31, 2002
Net loss as reported	$ (3,920)
Pro-forma net loss	(3,913)
DILUTED EARNINGS PER SHARE:	
Net loss as reported	$ (13.08)
Pro-forma net loss	(13.06)

The adoption of SFAS No. 143 would have had no effect on the Company's income from continuing operations for the year ended December 31, 2002 as the cumulative effect of accounting change related to Texas Genco is included in income from discontinued operations.

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. 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 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 normal sales contracts rather than derivatives. The

Company has evaluated its forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 did not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state-mandated or contractually-mandated auctions, and did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Effective July 1, 2003, upon the adoption of SFAS No. 150, the Company reclassified $725 million of trust preferred securities as long-term debt and began to recognize the dividends paid on the trust preferred securities as interest expense. Prior to July 1, 2003, the dividends were classified as "Distribution on Trust Preferred Securities" in the Statements of Consolidated Operations. Additionally, $19 million of debt issuance costs previously netted against the balance of the trust preferred securities was reclassified to unamortized debt issuance costs. SFAS No. 150 does not permit restatement of prior periods. The adoption of SFAS No. 150 did not impact the Company's income from continuing operations, net income or earnings per share. See discussion of FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46) below regarding the accounting for the trust preferred securities at December 31, 2003.

In January 2003, the FASB issued 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, subject to the following additional releases by the FASB. On October 9, 2003, the FASB deferred the application for FIN 46 until the end of the first interim period or annual period ending after December 15, 2003 if the variable interest was created before February 1, 2003 and a public entity had not issued financial statements reporting the variable interest entity in accordance with FIN 46. On December 24, 2003, the FASB issued a revision to FIN 46 (FIN 46-R). The effective dates and impact of FIN 46 and FIN 46R are as follows: (a) for special-purpose entities (SPE's) created before February 1, 2003, the Company must apply the provisions of FIN 46 or FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003, (b) for variable interest entities created before February 1, 2003 which do not meet the definition of an SPE provided by FIN 46-R, the Company is required to adopt FIN 46-R at the end of the first interim or annual period ending after March 15, 2004 and (c) for all entities, regardless of whether an SPE, that were created subsequent to December 31, 2003, the Company is required to apply the provisions of FIN 46-R immediately. The Company has subsidiary trusts that have Mandatorily Redeemable Preferred Securities outstanding with a liquidation value of $725 million as of December 31, 2003. These securities were issued in 1996 and 1997 and were previously reported on the Company's Consolidated Balance Sheet as Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of the Company (see disclosure above on SFAS No. 150). The trusts were determined to be SPE's, and therefore, the provisions of FIN 46 or FIN 46-R were applicable to the trusts for the December 31, 2003 financial statements. The trusts were determined to be variable interest entities under FIN 46-R. The Company also determined that it is not the primary beneficiary of the trusts. Therefore, the trusts and the mandatorily redeemable preferred securities issued by the trusts are no longer reported on the Company's Consolidated Balance Sheet as of December 31, 2003. Instead, the Company reports its junior subordinated debentures due to the trusts as long-term debt. See Note 9. The Company has made this reclassification as of December 31, 2003 and has elected not to restate prior period information. The Company is currently evaluating the impact of adopting FIN 46-R applicable to non-SPE's created prior to February 1, 2003 but does not expect a material impact.

On December 23, 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132(R)) which increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies will be required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132(R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period

financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132(R) in Note 10 to these consolidated financial statements.

In December 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) which will become effective in 2006. The Act contains incentives for the Company, if it continues to provide prescription drug benefits for its retirees, through the provision of a non-taxable reimbursement to the Company of specified costs. The Company has many different alternatives available under the Act, and, until clarifying regulations are issued with respect to the Act, the Company is unable to determine the financial impact. On January 12, 2004, the FASB issued FASB Staff Position (FSP) FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FAS 106-1)." In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

(3) DISCONTINUED OPERATIONS

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.

As a result of the Reliant Resources Distribution, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of $4.4 billion in 2002. This loss represents the excess of the carrying value of CenterPoint Energy's net investment in Reliant Resources over the market value of Reliant Resources' common stock. CenterPoint Energy's financial statements reflect the reclassifications necessary to present Reliant Resources as discontinued operations for all periods shown.

Reliant Resources' revenues included in discontinued operations for the year ended December 31, 2001 and nine months ended September 30, 2002 were $6.5 billion and $9.5 billion, respectively, as reported in Reliant Resources' Annual Report on Form 10-K/A, Amendment No. 1, filed with the Securities and Exchange Commission (SEC) on May 1, 2003. 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." Income from these discontinued operations for the year ended December 31, 2001 and nine months ended September 30, 2002 is reported net of income tax expense of $274 million and $284 million, respectively.

Latin America. In February 2003, the Company sold its 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. 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. The Company recorded an after-tax loss of $3 million in the second quarter of 2003 related to its Latin America operations. The consolidated financial statements present these Latin America operations as discontinued operations in accordance with SFAS No. 144. Accordingly, the consolidated financial statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Revenues related to the Company's Latin America operations included in discontinued operations for the years ended December 31, 2001, 2002 and 2003 were $92 million, $15 million and $2 million, respectively. Income from these discontinued operations for the year ended December 31, 2001 is reported net of income tax benefit of $28 million. Income from these discontinued operations for each of the years ended December 31, 2002 and 2003 is reported net of income tax expense of $2 million.

Summarized balance sheet information related to discontinued operations of Latin America is as follows as of December 31, 2002:

	DECEMBER 31, 2002 (IN MILLIONS)
CURRENT ASSETS:	
Cash	$ 6
Accounts receivable, principally trade	3
Other current assets	1
Total current assets	10
OTHER NON-CURRENT ASSETS	5
TOTAL ASSETS	15
TOTAL LIABILITIES	--
NET ASSETS OF DISCONTINUED OPERATIONS	$ 15

CenterPoint Energy Management Services, Inc. As discussed in Note 1, in November 2003, the Company completed the sale of a component of its Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. The Company recorded an after-tax loss of $1 million from the sale of CEMS in the fourth quarter of 2003. The Company recorded an after-tax loss in discontinued operations of $16 million ($25 million pre-tax) during the second quarter of 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. The consolidated financial statements present these CEMS operations as discontinued operations in accordance with SFAS No. 144. Accordingly, the consolidated financial statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Revenues related to CEMS included in discontinued operations for the years ended December 31, 2001, 2002 and 2003 were $5 million, $9 million and $10 million, respectively. Income from these discontinued operations for the years ended December 31, 2001, 2002 and 2003 is reported net of income tax benefit of $2 million, $1 million and $2 million, respectively.

Summarized balance sheet information related to discontinued operations of CEMS is as follows as of December 31, 2002:

	DECEMBER 31, 2002 (IN MILLIONS)
CURRENT ASSETS:	
Cash	$ 1
Accounts receivable, principally trade	1
Other current assets	1
Total current assets	3
OTHER NON-CURRENT ASSETS	45
TOTAL ASSETS	48
CURRENT LIABILITIES:	
Accounts payable, principally trade	2
Other current liabilities	1
Total current liabilities	3
OTHER LONG-TERM LIABILITIES	7
TOTAL LIABILITIES	10
NET ASSETS OF DISCONTINUED OPERATIONS	$ 38

Texas Genco. As discussed in Note 1(a), on July 21, 2004, the Company and Texas Genco announced a definitive agreement for Texas Genco LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144. Accordingly, the consolidated financial

statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Revenues related to Texas Genco included in discontinued operations for the years ended December 31, 2001, 2002 and 2003 were $3.4 billion, $1.5 billion and $2.0 billion, respectively. Income from these discontinued operations for the years ended December 31, 2001, 2002 and 2003 is reported net of income tax (expense) benefit of $(74) million, $63 million and $(71) million, respectively.

In accordance with EITF Issue No. 87-24 "Allocation of Interest to Discontinued Operations," the Company has reclassified interest to discontinued operations of Texas Genco based on net proceeds to be received from the sale of Texas Genco. Interest expense of $58 million and $198 million for the years ended December 31, 2002 and 2003, respectively, was reclassified to discontinued operations of Texas Genco related to the applicable amounts of CenterPoint Energy's term loan and revolving credit facility debt that would have been required to be paid off with any proceeds of the sale of Texas Genco during that respective period. No interest expense was reclassified to discontinued operations of Texas Genco for the year ended December 31, 2001. Additionally, general corporate overhead of $22 million, $27 million, and $27 million for the years ended December 31, 2001, 2002 and 2003 previously allocated to Texas Genco from CenterPoint Energy was excluded from income from discontinued operations and reflected as general corporate overhead of CenterPoint Energy in income from continuing operations.

As of December 31, 2003, Texas Genco had a revolving credit facility that provided for an aggregate of $75 million of committed credit. As of December 31, 2003, there were no borrowings under the Texas Genco facility. The Texas Genco revolver terminates on December 21, 2004. Rates for borrowings under Texas Genco's facility, including the facility fee, are the London interbank offered rate (LIBOR) plus 150 basis points. Texas Genco's revolving credit facility contains various business and financial covenants. Texas Genco is currently in compliance with the covenants under the credit agreement.

Summarized balance sheet information related to discontinued operations of Texas Genco is as follows as of December 31, 2002 and 2003:

	DECEMBER 31, 2002	DECEMBER 31, 2003
	(IN MILLIONS)	
CURRENT ASSETS:		
Cash	$ 1	$ 45
Accounts receivable, principally trade	73	82
Other current assets	187	175
Total current assets	261	302
OTHER NON-CURRENT ASSETS	4,270	3,942
TOTAL ASSETS	4,531	4,244
CURRENT LIABILITIES:		
Accounts payable, principally trade	120	109
Other current liabilities	240	223
Total current liabilities	360	332
OTHER LONG-TERM LIABILITIES	1,347	1,278
TOTAL LIABILITIES	1,707	1,610
MINORITY INTEREST	--	179
NET ASSETS OF DISCONTINUED OPERATIONS	$ 2,824	$ 2,455

(4) REGULATORY MATTERS

(a) TRUE-UP COMPONENTS AND SECURITIZATION

The Texas Electric Restructuring Law. In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (the Texas electric restructuring law), which substantially amended the regulatory structure governing electric utilities in order to allow and encourage retail competition which began in January 2002. The Texas electric restructuring law required the separation of the generation, transmission and distribution, and retail sales functions of electric utilities into three different units. Under the law, neither the generation function nor the retail function is

subject to traditional cost of service regulation, and the generation and the retail function are each operated on a competitive basis.

The transmission and distribution function that CenterPoint Houston performs remains subject to traditional utility rate regulation. CenterPoint Houston recovers the cost of its service through an energy delivery charge approved by the Texas Utility Commission. As a result of these changes, there are no meaningful comparisons for the Electric Transmission & Distribution business segment prior to 2002 when retail sales became fully competitive.

Under the Texas electric restructuring law, transmission and distribution utilities in Texas, such as CenterPoint Houston, whose generation assets were "unbundled" may recover, following a regulatory proceeding to be held in 2004 (2004 True-Up Proceeding) as further discussed below in "-- 2004 True-Up Proceeding":

- "stranded costs," which consist of the positive excess of the regulatory net book value of generation assets, as defined, over the market value of the assets, taking specified factors into account;

- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;

- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;

- final fuel over- or under-recovery; less

- "price to beat" clawback components.

The Texas electric restructuring law permits transmission and distribution utilities to recover the true-up components through transition charges on retail electric customers' bills, to the extent that such components are established in certain regulatory proceedings. These transition charges are non-bypassable, meaning that they must be paid by essentially all customers and cannot, except in limited circumstances, be avoided by switching to self-generation. The law also authorizes the Texas Utility Commission to permit those utilities to issue transition bonds based on the securitization of revenues associated with the transition charges. CenterPoint Houston recovered a portion of its regulatory assets in 2001 through the issuance of transition bonds. For a further discussion of these matters, see "-- Securitization" below.

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. During a base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution-related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. CenterPoint Houston undertook both of these remedies provided in the Texas electric restructuring law, but in a rate order issued in October 2001, the Texas Utility Commission required CenterPoint Houston to reverse those actions. For a further discussion of these matters, see "-- Mitigation" below.

2004 True-Up Proceeding. In 2004, the Texas Utility Commission will conduct true-up proceedings for investor-owned utilities. The purpose of the true-up proceeding is to quantify and reconcile the amount of the true-up components. The true-up proceeding will result in either additional charges being assessed on, or credits being issued to, retail electric customers. CenterPoint Houston expects to make the filing to initiate its final true-up proceeding on March 31, 2004. The Texas electric restructuring 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, although under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. Any delay in the final order date will result in a delay in the securitization of CenterPoint Houston's true-up components and the implementation

of the non-bypassable charges described above, and could delay the recovery of carrying costs on the true-up components determined by the Texas Utility Commission.

CenterPoint Houston will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. CenterPoint Houston expects these amounts to be substantial. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if CenterPoint Houston agrees to forego recovery of a portion of the request under a settlement agreement, CenterPoint Houston would be unable to recover those amounts in the future.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, CenterPoint Houston appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as CenterPoint Houston contends is required by law. On January 30, 2004, the Texas Supreme Court granted CenterPoint Houston's petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. The Company has not accrued interest income on stranded costs in its consolidated financial statements, but estimates such interest income would be material to the Company's consolidated financial statements.

Stranded Cost Component. CenterPoint Houston will be entitled to recover stranded costs through a transition charge to its customers if the regulatory net book value of generating plant assets exceeds the market value of those assets. The regulatory net book value of generating plant assets is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen (NOx), any above-market purchased power contracts and certain other amounts. The market value will be equal to the average daily closing price on The New York Stock Exchange for publicly held shares of Texas Genco common stock for 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

ECOM True-Up Component. The Texas Utility Commission used a computer model or projection, called an excess cost over market (ECOM) model, to estimate stranded costs related to generation plant assets. Accordingly, the Texas Utility Commission estimated the market power prices that would be received in the generation capacity auctions mandated by the Texas electric restructuring law during 2002 and 2003. Any difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period will be a component of the 2004 True-Up Proceeding. In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the years ended December 31, 2002 and 2003, CenterPoint Energy recorded approximately $697 million and $661 million, respectively, in non-cash ECOM True-Up revenue. ECOM True-Up revenue is recorded as a regulatory asset and totaled $1.4 billion as of December 31, 2003.

In 2003, some parties sought modifications to the true-up rules. Although the Texas Utility Commission denied that request, the Company expects that issues could be raised in the 2004 True-Up Proceeding regarding its compliance with the Texas Utility Commission's rules regarding the ECOM true-up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. The Company believes Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, the Company would write off the unrecoverable balance of that asset as a charge against earnings.

Fuel Over/Under Recovery Component. CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission in July 2002. This final fuel reconciliation filing covered reconcilable fuel expense and interest of approximately $8.5 billion incurred from August 1, 1997 through January 30, 2002. In January 2003, a settlement agreement was reached, as a result of which certain items totaling $24 million were written off during the fourth quarter of 2002 and items totaling $203 million were carried forward for later resolution by the Texas Utility Commission. In late 2003, a hearing was concluded on those remaining issues. On March 4, 2004, an Administrative Law Judge (ALJ) recommended that CenterPoint Houston

not be allowed to recover $87 million in fuel expenses incurred during the reconciliation period. CenterPoint Houston will contest this recommendation when the Texas Utility Commission considers the ALJ's conclusions on April 15, 2004. However, since the recovery of this portion of the regulatory asset is no longer probable, CenterPoint Houston reserved $117 million, including interest, in the fourth quarter of 2003. The ALJ also recommended that $46 million be recovered in the 2004 True-Up Proceeding rather than in the fuel proceeding. The results of the Texas Utility Commission's decision will be a component of the 2004 True-Up Proceeding.

"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 the "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by other retail electric providers by January 1, 2004. Pursuant to the Texas electric restructuring law and a master separation agreement entered into in connection with the September 30, 2002 spin-off of the Company's interest in Reliant Resources to the Company's shareholders, Reliant Resources is obligated to pay CenterPoint Houston the clawback component of the true-up. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal $150 times the number of residential customers served by Reliant Resources in CenterPoint Houston's service territory, less the number of residential customers served by Reliant Resources outside CenterPoint Houston's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be $175 million. The clawback will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

Securitization. The Texas electric restructuring law provides for the use of special purpose entities to issue transition bonds for the economic value of generation-related regulatory assets and stranded costs. These transition bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges. In October 2001, a special purpose subsidiary of CenterPoint Houston issued $749 million of transition bonds to securitize certain generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to the Company and its subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made out of funds from non-bypassable transition charges.

The Company expects that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will seek to securitize the amounts established for the true-up components. Before CenterPoint Houston can securitize these amounts, the Texas Utility Commission must conduct a proceeding and issue a financing order authorizing CenterPoint Houston to do so. 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.

Mitigation. In an order issued in October 2001, the Texas Utility Commission established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had over-mitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston was required to reverse the amount of redirected depreciation ($841 million) and accelerated depreciation ($1.1 billion) taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the order, CenterPoint Houston recorded a regulatory liability of $1.1 billion 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 $238 million. As of December 31, 2002 and 2003, the Company had recorded net electric plant mitigation regulatory assets of $1.1 billion and $1.3 billion, respectively, based on the Company's expectation that these amounts will be recovered in the 2004 True-Up Proceeding as stranded costs. In the event that the excess mitigation credits prove to have been unnecessary and CenterPoint Houston is determined to have stranded costs, the excess mitigation credits will be included in the stranded costs to be recovered. In June 2003, CenterPoint Houston sought authority from the Texas Utility Commission to terminate these credits based on then current estimates of what that final determination would be. The Texas Utility Commission denied the request in January 2004.

(b) RATE CASES

In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) that resulted in an increase in the base rate and service charge revenues of CenterPoint Energy Arkla (Arkla) of approximately $27 million annually. In addition, the APSC approved a gas main replacement surcharge that provided $2 million of additional revenue in 2003 and is expected to provide additional amounts in subsequent years.

In December 2002, a settlement was approved by the Oklahoma Corporation Commission that resulted in an increase in the base rate and service charge revenues of Arkla of approximately $6 million annually.

In November 2003, Arkla filed a request with the Louisiana Public Service Commission (LPSC) for a $16 million increase to its base rate and service charge revenues in Louisiana. The case is expected to be resolved in mid-2004.

In December 2003, a settlement was approved by the City of Houston that will result in an increase in the base rate and service charge revenues of CenterPoint Energy Entex (Entex) of approximately $7 million annually. Entex has submitted these settlement rates to the 28 other cities within its Houston Division and the Railroad Commission of Texas for consideration and approval. If all regulatory approvals are received from these 29 jurisdictions, Entex's base rate and service charge revenues are expected to increase by approximately $7 million annually in addition to the $7 million increase discussed above.

On February 10, 2004, a settlement was approved by the LPSC that is expected to result in an increase in Entex's base rate and service charge revenues of approximately $2 million annually.

(c) NUCLEAR DECOMMISSIONING TRUST

Texas Genco is the beneficiary of decommissioning trusts that have 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 Notes 6 and 12(e)). CenterPoint Houston collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trusts, and deposits these amounts into the decommissioning trusts. Upon decommissioning of the facility, in the event funds from the trusts 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.

(d) OTHER REGULATORY PROCEEDINGS

City of Tyler, Texas Dispute. In July 2002, the City of Tyler, Texas, asserted that Entex had overcharged residential and small commercial customers in that city for excessive gas costs under supply agreements in effect since 1992. That dispute has been referred to the Texas Railroad Commission by agreement of the parties for a determination of 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.

FERC Contract Inquiry. On September 15, 2003, the FERC issued a Show Cause Order to CenterPoint Energy Gas Transmission Company (CEGT), one of CERC's natural gas pipeline subsidiaries. In its Show Cause Order, the FERC contends that CEGT has failed to file with the FERC and post on the internet certain information relating to negotiated rate contracts that CEGT had entered into pursuant to 1996 FERC orders. Those orders authorized CEGT to enter into negotiated rate contracts that deviate from the rates prescribed under its filed FERC tariffs. The FERC also alleges that certain of the contracts contain provisions that CEGT was not authorized to negotiate under the terms of the 1996 orders.

Following issuance of the Show Cause Order, CEGT made certain compliance filings, met with members of the FERC's staff and provided additional information relating to the FERC's Show Cause Order. On March 4, 2004, the FERC issued orders accepting CEGT's compliance filings and approving a Stipulation and Consent Agreement with CEGT that resolved the issues raised by the Show Cause Order. The resolution of these issues did not have a material impact on our results of operations, financial condition and cash flows.

(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.

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $58 million and a cumulative after-tax increase in accumulated other comprehensive income of $38 million.

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 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. 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. 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 "Fuel and Cost of Gas Sold." 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, 2003, the Company expects $38 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, 2003, the Company had an outstanding interest rate swap with a notional amount of $250 million to fix the interest rate applicable to floating rate short-term debt. This swap, which expired in January 2004, did not qualify as a cash flow hedge under SFAS No. 133, and was 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, which was recorded in other comprehensive income and reclassified $36 million and $12 million to interest expense in 2002 and 2003, respectively. The remaining $108 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.

Embedded Derivative. The Company's $575 million of convertible senior notes, issued May 19, 2003 and $255 million of convertible senior notes, issued December 17, 2003 (see Note 9), contain contingent interest provisions. 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 components was not material at issuance or at December 31, 2003.

(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, 2002 and 2003 (in millions):

	DECEMBER 31, 2002		DECEMBER 31, 2003	
	INVESTMENT GRADE(1)(2)	TOTAL	INVESTMENT GRADE(1)(2)	TOTAL(3)
Energy marketers	$ 7	$ 22	$ 24	$ 35
Financial institutions	9	9	21	21
Other	--	--	--	1
Total	$ 16	$ 31	$ 45	$ 57

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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 $35 million non-trading derivative asset includes an $11 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, 2003, Reliant Energy Services did not have an investment grade rating.

(c) GENERAL POLICY

The Company has established a Risk Oversight Committee composed 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.

(6) JOINTLY OWNED ELECTRIC UTILITY PLANT

Texas Genco owns a 30.8% interest in the South Texas Project, which consists of two 1,250 MW nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among Texas Genco and three other co-owners, with each owner retaining its undivided ownership interest in the two generating units and the electrical output from those units. Texas Genco is severally liable, but not jointly liable, for the expenses and liabilities of the South Texas Project. Texas Genco and the three other co-owners organized the STP Nuclear Operating company (STPNOC) to operate and maintain the South Texas Project. STPNOC is managed by a board of directors comprised of one director appointed by each of the four co-owners, along with the chief executive officer of STPNOC. Texas Genco's share of direct expenses of the South Texas Project is included in discontinued operations in the Statements of Consolidated Operations. As of December 31, 2002 and 2003, Texas Genco's total utility plant for the South Texas Project was $385 million and $431 million, respectively (net of $2.2 billion accumulated depreciation which includes an impairment loss recorded in 1999 of $745 million). As of December 31, 2002 and 2003, Texas Genco's investment in nuclear fuel was $42 million (net of $302 million amortization) and $40 million (net of $316 million amortization), respectively. These assets are included in non-current assets of discontinued operations in the Consolidated Balance Sheets.

(7) INDEXED DEBT SECURITIES (ZENS) AND 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 partial 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). Unrealized gains and losses resulting from changes in the market value of the TW Common are recorded in the Company's Statements of Consolidated Operations.

(b) ZENS

In September 1999, the Company issued its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. ZENS are exchangeable for cash equal to the market value of a specified number of shares of TW common. The Company pays interest on the ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the shares of TW Common attributable to the ZENS. The principal amount of ZENS is subject to being increased to the extent that the annual yield from interest and cash dividends on the reference shares of TW Common is less than 2.309%. At December 31, 2003, ZENS having an original principal amount of $840 million and a contingent principal amount of $848 million were outstanding and were exchangeable, at the option of the holders, for cash equal to 95% of the market value of 21.6 million shares of TW Common deemed to be attributable to the ZENS. At December 31, 2003, the market value of such shares was approximately $389 million, which would provide an exchange amount of $440 for each $1,000 original principal amount of ZENS. 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 TW Common, or other securities distributed with respect to TW Common.

Through December 31, 2003, holders of approximately 16% of the 17.2 million ZENS originally issued had 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 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 TW Common at an average price of $10.56 per share. The Company now holds 21.6 million shares of 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.

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 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 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 ($58 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, 2002 and 2003, the Company recorded a loss of $70 million, a loss of $500 million and a gain of $106 million, respectively, on the Company's investment in TW Common. During 2001, 2002 and 2003, the Company recorded a gain of $58 million, a gain of $480 million and a loss of $96 million, respectively, associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

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

	TW INVESTMENT	DEBT COMPONENT OF ZENS	DERIVATIVE COMPONENT OF ZENS
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 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 TW Common	(500)	--	--
Liquidation of TW Common	(43)	--	--
Liquidation of ZENS, net of gain	--	(20)	(25)
Balance at December 31, 2002	284	104	225
Accretion of debt component of ZENS	--	1	--
Loss on indexed debt securities	--	--	96
Gain on TW Common	106	--	--
Balance at December 31, 2003	$ 390	$ 105	$ 321

(8) EQUITY

(a) CAPITAL STOCK

At December 31, 2003, CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, composed 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.

(b) SHAREHOLDER RIGHTS PLAN

The Company has a Shareholder Rights Plan that states that each share of its common stock includes one associated preference stock purchase right (Right) which entitles the registered holder to purchase from the Company a unit consisting of one-thousandth of a share of Series A Preference Stock. The Rights, which expire on December 11, 2011, are exercisable upon some events involving the acquisition of 20% or more of the Company's outstanding common stock. Upon the occurrence of such an event, each Right entitles the holder to receive common

stock with a current market price equal to two times the exercise price of the Right. At anytime prior to becoming exercisable, the Company may repurchase the Rights at a price of $0.005 per Right. There are 700,000 shares of Series A Preference Stock reserved for issuance upon exercise of the Rights.

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

	DECEMBER 31, 2002		DECEMBER 31, 2003	
	LONG-TERM	CURRENT(1)	LONG-TERM	CURRENT(1)
	(IN MILLIONS)			
Short-term borrowings:				
Bank loans		$ 347		$ --
Revolving credit facility		--		63
Total short-term borrowings		347		63
Long-term debt:				
CenterPoint Energy:				
ZENS(2)	$ --	104	$ --	105
Senior notes 5.875% to 7.25% due 2008 to 2010	--	--	600	--
Convertible senior notes 2.875% to 3.75% due 2023 to 2024	--	--	830	--
Pollution control bonds 5.60% to 6.70% due 2012 to 2027(3)	380	167	380	--
Pollution control bonds 4.70% to 8.00% due 2011 to 2030(4)	871	--	1,046	--
Loans due 2006(5)	3,850	--	1,450	10
Junior subordinated debentures payable to affiliate 7.20% to 8.257% due 2037 to 2048(6)	--	--	747	--
CenterPoint Houston:				
First mortgage bonds 7.50% to 9.15% due 2021 to 2023	615	--	102	--
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2004 to 2013(7)	717	19	676	41
Term loan, LIBOR plus 9.75%, due 2005(8)	1,310	--	1,310	--
General mortgage bonds 5.60% to 6.95% due 2013 to 2033	--	--	1,262	--
CERC Corp.:				
Convertible subordinated debentures 6.00% due 2012	76	--	74	--
Senior notes 5.95% to 8.90% due 2005 to 2014	1,331	500	2,251	--
Junior subordinated debentures payable to affiliate 6.25% due 2026(6)	--	--	6	--
Other	45	6	46	5
Unamortized discount and premium(9)	(8)	13	(2)	--
Total long-term debt	9,187	809	10,778	161
Total borrowings	$ 9,187	$ 1,156	$ 10,778	$ 224

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

(2) 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(b). 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.

(3) These series of debt are secured by first mortgage bonds of CenterPoint Houston.

(4) $527 million of these series of debt is secured by general mortgage bonds of CenterPoint Houston.

(5) Classified as long-term debt because of the termination dates of the facilities under which the funds were borrowed.

(6) The junior subordinated debentures were issued to subsidiary trusts in connection with the issuance by those trusts of preferred securities. The trust preferred securities were deconsolidated effective December 31, 2003 pursuant to the adoption of FIN 46. This resulted in the junior subordinated debentures held by the trusts being reported as long-term debt. For further discussion, see Note 2(n).

(7) For further discussion of the securitization financing, see Note 4(a).

(8) London inter-bank offered rate (LIBOR) has a minimum rate of 3% under the terms of this debt. This term loan is secured by general mortgage bonds of CenterPoint Houston.

(9) 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 $7 million and $6 million at December 31, 2002 and 2003, respectively, which is being amortized over the respective remaining term of the related long-term debt.

(a) SHORT-TERM BORROWINGS

Credit Facilities. As of December 31, 2003, CERC Corp. had a revolving credit facility that provided for an aggregate of $200 million in committed credit. As of December 31, 2003, $63 million was borrowed under the CERC Corp. revolving credit facility. The CERC Corp. revolver terminates on March 23, 2004.

Rates for borrowings under CERC Corp.'s facility, including the facility fee, are the LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid. CERC Corp.'s revolving credit facility contains various business and financial covenants. CERC Corp. is prohibited from making loans to or other investments in the Company. CERC Corp. is currently in compliance with the covenants under the credit agreement. CERC Corp. is currently in discussions with banks seeking to arrange a replacement revolving credit facility and expects to have such a facility in place on or prior to the termination date of the existing facility.

The weighted average interest rate on short-term borrowings at December 31, 2002 and December 31, 2003 was 5.4% and 5.0%, respectively. These interest rates exclude facility fees and other fees paid in connection with the arrangement of the bank facilities. As of December 31, 2003, cash aggregating $21 million was invested in a money market fund.

(b) LONG-TERM DEBT

On October 7, 2003, the Company entered into a three-year credit facility composed of a revolving credit facility of $1.4 billion and a $925 million term loan from institutional investors. The facility matures on October 7, 2006 and requires prepayments aggregating $20 million. Borrowings under the revolver ($523 million at December 31, 2003) bear interest based on LIBOR rates under a pricing grid tied to the Company's credit ratings. At the Company's current ratings, the interest rate for borrowings under the revolver is LIBOR plus 300 basis points. The interest rate for borrowings under the term loan is LIBOR plus 350 basis points. The Company's Texas Genco stock is pledged to the lenders under the facility and the Company has agreed to limit the dividend paid on its common stock to $0.10 per share per quarter. The facility provides that until such time as the facility has been reduced to $750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Houston's $1.3 billion term loan, and the net cash proceeds of any sales of the common stock of Texas Genco owned by the Company or of material portions of Texas Genco's assets shall be applied to repay loans under the facility and reduce that facility. Any money raised in other future capital markets offerings and in the sale of other significant assets is not required to be used to pay down the facility. The facility requires the Company not to fall below a minimum interest coverage ratio and not to exceed a maximum leverage ratio. The facility refinanced and replaced a prior bank facility that, as of September 30, 2003, consisted of an $856 million term loan and a $1.5 billion revolver. In connection with entering into the new facility, the Company paid up-front fees of approximately $16 million and avoided a payment of $18 million which would have been due under the prior facility on October 9, 2003. Additionally, in October 2003, the Company expensed $21 million of unamortized loan costs associated with the prior facility.

On March 18, 2003, CenterPoint Houston issued $762 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 million principal amount of 30-year bonds with an interest rate of 6.95%. Proceeds were used to redeem approximately $312 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 and to repay borrowings under the Company's prior facility, including $50 million of term loan repayments.

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 notes due in 2013. A portion of the proceeds was 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.

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, the Company 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. (Moody's) and Standard & Poor's Ratings Services (S&P), 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. For any six-month 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 term loan repayments and to repay revolver borrowings under the Company's prior 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 $200 million aggregate principal amount of CenterPoint Houston's 7.5% first mortgage bonds due 2023 at 103.51% of their principal amount.

On May 27, 2003, the Company 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 repayments of the term loan under the Company's prior facility.

In July 2003, the Company remarketed two series of insurance-backed pollution control bonds aggregating $151 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, $92 million mature on August 1, 2015 and $59 million mature on October 15, 2015.

On September 2, 2003, CenterPoint Houston and the lender parties thereto amended the $1.3 billion term loan to, among other things, allow CenterPoint Houston to issue an additional $500 million of debt secured by its general mortgage bonds without requiring that the net proceeds be applied to prepay the loans outstanding under that term loan.

On September 9, 2003, CenterPoint Houston issued $300 million aggregate principal amount of 5.75% general mortgage bonds due January 15, 2014. This issuance utilized $300 million of the additional debt capacity of CenterPoint Houston described in the preceding paragraph. Proceeds were used to repay approximately $258 million of intercompany notes payable to CenterPoint Energy and to repay approximately $40 million of money pool borrowings. Proceeds in the amount of approximately $292 million from the note and money pool repayments were ultimately used by CenterPoint Energy to repay a portion of the term loan under the Company's prior facility.

On September 9, 2003, the Company issued $200 million aggregate principal amount of 7.25% senior notes due September 1, 2010. Proceeds in the amount of approximately $198 million were used to repay a portion of the term loan under the Company's prior facility.

As a result of the term loan repayments made from the proceeds of the September 9, 2003 debt issuances by CenterPoint Houston and the Company discussed above, in September 2003, the Company expensed $12.2 million of unamortized loan costs that were associated with the term loan under the Company's prior facility.

On November 3, 2003, CERC issued $160 million aggregate principal amount of its 5.95% senior notes due 2014. CERC accepted $140 million aggregate principal amount of CERC's TERM Notes maturing in November 2003 and $1.25 million as consideration for the unsecured senior notes. CERC retired the TERM notes received and used the remaining proceeds to finance remaining costs of issuance of the notes and for general corporate purposes.

On December 17, 2003, the Company issued $255 million aggregate principal amount of convertible senior notes due January 15, 2024 with an interest rate of 2.875%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 78.064 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% 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 and S&P 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. CenterPoint Energy may elect to satisfy part or all of its conversion obligation by delivering cash in lieu of shares of CenterPoint Energy common stock. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after January 15, 2007, 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. For

any six-month 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 to redeem, in January 2004, $250 million liquidation amount of the 8.125% trust preferred securities issued by HL&P Capital Trust I. Pending such use, the net proceeds were used to repay a portion of the outstanding borrowings under the Company's revolving credit facility.

In February 2004, $56 million aggregate principal amount of collateralized 5.6% pollution control bonds due 2027 and $44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of CenterPoint Houston. The pollution control bonds are collateralized by general mortgage bonds of CenterPoint Houston with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to redeem two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of $100 million issued on behalf of CenterPoint Energy. CenterPoint Houston's 6.7% first mortgage bonds which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds were retired in connection with the March 2004 redemption of the refunded pollution control bonds. CenterPoint Houston's 6.7% notes payable to CenterPoint Energy were also extinguished upon the redemption of the refunded pollution control bonds.

Junior Subordinated Debentures (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. 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. As discussed in Note 2(n), upon the Company's adoption of FIN 46, the junior subordinated debentures discussed above are included in long-term debt as of December 31, 2003.

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, 2003, 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:

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, 2002 AND 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(1)................	$	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

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(1) The preferred securities issued by HL&P Capital Trust I having an aggregate liquidation amount of $250 million were redeemed at 100% of their aggregate liquidation amount in January 2004.

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 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, 2002 and 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. 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, 2003, no interest payments on the convertible junior subordinated debentures had been deferred.

Maturities. The Company's maturities of long-term debt, capital leases and sinking fund requirements, excluding the ZENS obligation and $250 million of securities called for redemption in 2004, are $57 million in 2004, $1.7 billion in 2005, $1.7 billion in 2006, $69 million in 2007 and $572 million in 2008. The 2004 amount is net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2003.

Liens. As of December 31, 2003, CenterPoint Houston's assets were subject to liens securing approximately $482 million 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 2001, 2002 and 2003 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2004 is approximately $142 million, and the sinking fund requirement to be satisfied in 2004 is approximately $4 million. The Company expects CenterPoint Houston to meet these 2004 obligations by certification of property additions. At December 31, 2003, CenterPoint Houston's assets were also subject to liens securing approximately $3.1 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).

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, 2002, the Company had recorded $5 million and $36 million in current portion of long-term debt and long-term debt, respectively, and as of December 31, 2003, the Company had recorded $-0- 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 declined to 100 Mmcf/day in the year 2003 and CERC refunded $5 million to Reliant Resources. The ANR Agreement will terminate in 2005 with a refund of $36 million to Reliant Resources.

(10) STOCK-BASED INCENTIVE COMPENSATION PLANS AND EMPLOYEE BENEFIT PLANS

(a) INCENTIVE COMPENSATION PLANS

The Company has long-term incentive compensation plans (LICPs) 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 directors, officers and key employees. 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 2001, 2002 and 2003, the Company recorded compensation expense of $6 million, $2 million and $9 million, respectively, related to performance-based shares, performance-based units and restricted share grants. Included in these amounts is $5 million in compensation expense for 2001 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 2001 through 2003:

	NUMBER OF PERFORMANCE-BASED UNITS	NUMBER OF PERFORMANCE-BASED SHARES	NUMBER OF RESTRICTED SHARES
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
Granted	--	840,920	583,613
Shares converted at Texas Genco Distribution	--	25,746	23,219
Canceled	(29,515)	(43,386)	(14,240)
Released to participants	(1,441)	(7,042)	(113,056)
Outstanding at December 31, 2003	46,969	1,270,060	567,438
Weighted average fair value granted for 2001		$ --	$ 38.13
Weighted average fair value granted for 2002		$ 12.00	$ --
Weighted average fair value granted for 2003		$ 5.70	$ 5.83

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 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 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 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 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 restricted shares of CenterPoint Energy common stock and 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 Texas Genco Distribution, the Company granted additional CenterPoint Energy shares to participants with performance-based and restricted 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 2001 through 2003:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
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
Options granted	2,217,546	5.69
Options converted at Texas Genco Distribution	751,867	17.21
Options exercised	(80,750)	6.44
Options canceled	(275,408)	16.40
Outstanding at December 31, 2003	15,073,137	$ 15.59
Options exercisable at December 31, 2001	3,646,228	$ 25.38
Options exercisable at December 31, 2002	6,854,910	$ 19.78
Options exercisable at December 31, 2003	10,285,689	$ 18.09

Exercise prices for CenterPoint Energy stock options outstanding held by Company employees ranged from

$4.78 to $32.26. The following tables provide information with respect to outstanding CenterPoint Energy stock options held by the Company's employees on December 31, 2003:

	OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE	REMAINING AVERAGE CONTRACTUAL LIFE (YEARS)
Ranges of Exercise Prices:			
$4.78-$10.00	4,970,404	$ 6.11	8.3
$10.01-$15.00	3,780,686	13.99	4.4
$15.01-$20.00	3,155,294	18.05	3.4
$20.01-$30.00	718,592	22.96	5.2
$30.01-$32.26	2,448,161	31.96	6.8
Total	15,073,137	15.59	5.9

The following table provides information with respect to CenterPoint Energy stock options exercisable at December 31, 2003:

	OPTIONS EXERCISABLE	AVERAGE EXERCISE PRICE
Ranges of Exercise Prices:		
$4.78-$10.00	973,821	$ 6.42
$10.01-$15.00	3,780,686	13.99
$15.01-$20.00	3,131,858	18.06
$20.01-$30.00	695,012	22.89
$30.01-$32.26	1,704,312	31.97
Total	10,285,689	18.09

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 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 2001, 2002 and 2003 were $9.25, $1.40 and $1.66, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following assumptions:

	2001	2002	2003
Expected life in years	5	5	5
Interest rate	4.87%	2.83%	2.62%
Volatility	31.91%	48.95%	52.60%
Expected common stock dividend	$ 1.50	$ 0.64	$ 0.40

Pro-forma information for 2001, 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:

	2001	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net income (loss) as reported	$ 980	$ (3,920)	$ 484
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(12)	(9)	(10)
Pro-forma net income(loss)	$ 968	$ (3,929)	$ 474
Basic Earnings Per Share:			
As reported	$ 3.38	$ (13.16)	$ 1.59
Pro-forma	$ 3.34	$ (13.16)	$ 1.56
Diluted Earnings Per Share:			
As reported	$ 3.35	$ (13.08)	$ 1.58
Pro-forma	$ 3.31	$ (13.08)	$ 1.55

(b) PENSION AND POSTRETIREMENT BENEFITS

The Company maintains a non-contributory qualified defined benefit plan covering substantially all employees, with benefits determined 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 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, healthcare 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.

On January 12, 2004, the FASB issued FSP FAS 106-1. In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

The Company's net periodic cost includes the following components relating to pension and postretirement benefits:

	YEAR ENDED DECEMBER 31,					
	2001		2002		2003	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)					
Service cost	$ 35	$ 5	$ 32	$ 5	$ 37	$ 4
Interest cost	99	31	104	32	102	31
Expected return on plan assets	(138)	(13)	(126)	(13)	(92)	(11)
Net amortization	(3)	14	16	13	43	13
Curtailment	(23)	40	--	--	--	--
Benefit enhancement	69	--	9	3	--	--
Settlement	--	--	--	(18)	--	--
Net periodic cost	$ 39	$ 77	$ 35	$ 22	$ 90	$ 37
Above amounts reflect the following net periodic cost (benefit) related to discontinued operations	$ 44	$ 49	$ 11	$ (9)	$ 17	$ 4

The Company used the following assumptions to determine net periodic cost relating to pension and postretirement benefits:

	DECEMBER 31,					
	2001		2002		2003	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
Discount rate	7.50%	7.50%	7.25%	7.25%	6.75%	6.75%
Expected return on plan assets	10.0%	10.0%	9.5%	9.5%	9.0%	9.0%
Rate of increase in compensation levels	4.1%	--	4.1%	--	4.1%	--

In determining net periodic benefits cost, the Company uses fair value, as of the beginning of the year, as its basis for determining expected return on plan assets.

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 of December 31, 2002 and 2003 for the Company's pension and postretirement benefit plans:

	DECEMBER 31,			
	2002		2003	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation, beginning of year	$ 1,485	$ 456	$ 1,550	$ 479
Service cost	32	5	37	4
Interest cost	104	32	102	31
Participant contributions	--	7	--	8
Benefits paid	(136)	(26)	(142)	(43)
Plan amendments	--	--	4	(5)
Actuarial loss	56	20	141	44
Curtailment, benefit enhancement and settlement	9	(15)	--	--
Benefit obligation, end of year	$ 1,550	$ 479	$ 1,692	$ 518
CHANGE IN PLAN ASSETS				
Plan assets, beginning of year	$ 1,376	$ 139	$ 1,054	$ 131
Employer contributions	--	30	23	34
Participant contributions	--	7	--	8
Benefits paid	(136)	(26)	(142)	(43)
Actual investment return	(186)	(19)	259	20
Plan assets, end of year	$ 1,054	$ 131	$ 1,194	$ 150
RECONCILIATION OF FUNDED STATUS				
Funded status	$ (496)	$ (348)	$ (498)	$ (368)
Unrecognized actuarial loss	811	27	733	63
Unrecognized prior service cost	(84)	60	(71)	49
Unrecognized transition (asset) obligation	--	87	--	79
Net amount recognized	$ 231	$ (174)	$ 164	$ (177)
AMOUNTS RECOGNIZED IN BALANCE SHEETS				
Benefit obligations	$ (392)	$ (174)	$ (395)	$ (177)
Accumulated other comprehensive income	623	--	559	--
Prepaid (accrued) pension cost	$ 231	$ (174)	$ 164	$ (177)
ACTUARIAL ASSUMPTIONS				
Discount rate	6.75%	6.75%	6.25%	6.25%
Expected return on plan assets	9.0%	9.0%	9.0%	8.5%
Rate of increase in compensation levels	4.1%	--	4.1%	--
Healthcare cost trend rate assumed for the next year	--	11.25%	--	10.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	--	5.5%	--	5.5%
Year that the rate reaches the ultimate trend rate	--	2011	--	2011

	DECEMBER 31,			
	2002		2003	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
ADDITIONAL INFORMATION				
Accumulated benefit obligation	$ 1,446	$ 479	$ 1,589	$ 518
Change in minimum liability included in other comprehensive income	623	--	(64)	--
Measurement date used to determine plan obligations and assets	December 31, 2002	December 31, 2002	December 31, 2003	December 31, 2003

Assumed healthcare cost trend rates have a significant effect on the reported amounts for the Company's postretirement benefit plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

	1% INCREASE	1% DECREASE
	(IN MILLIONS)	
Effect on total of service and interest cost	$ 2	$ 2
Effect on the postretirement benefit obligation	30	26

The following table displays the weighted-average asset allocations as of December 31, 2002 and 2003 for the Company's pension and postretirement benefit plans:

	DECEMBER 31,			
	2002		2003	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
Domestic equity securities	55%	35%	60%	41%
International equity securities	12	8	15	9
Debt securities	29	54	22	48
Real estate	4	--	3	--
Cash	--	3	--	2
Total	100%	100%	100%	100%

In managing the investments associated with the benefit plans, the Company's objective is to preserve and enhance the value of plan assets while maintaining an acceptable level of volatility. These objectives are expected to be achieved through an investment strategy, that manages liquidity requirements while maintaining a long-term horizon in making investment decisions and efficient and effective management of plan assets.

As part of the investment strategy discussed above, the Company has adopted and maintains the following weighted average allocation targets for its benefit plans:

	PENSION BENEFITS	POSTRETIREMENT BENEFITS
Domestic equity securities	50-60%	28-38%
International equity securities	10-20%	5-15%
Debt securities	20-30%	52-62%
Real estate	0-5%	--
Cash	0-2%	0-2%

The expected rate of return assumption was developed by reviewing the targeted asset allocations and historical index performance of the applicable asset classes over a 15-year period, adjusted for investment fees and diversification effects.

Equity securities for the pension plan include CenterPoint Energy common stock in the amounts of $38 million (4.7% of total pension plan assets) and $44 million (3.7% of total pension plan assets) and as of December 31, 2002 and 2003, respectively.

The Company expects to contribute $38 million to its postretirement benefits plan in 2004. Contributions to the pension plan are not required or expected in 2004.

In addition to the non-contributory pension plans discussed above, the Company maintains a non-qualified benefit restoration plan which allows 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, $9 million and $8 million in 2001, 2002 and 2003, 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 $83 million and $75 million at December 31, 2002 and 2003, respectively. In addition, these accrued benefit liabilities include the recognition of minimum liability adjustments of $23 million as of December 31, 2002 and $15 million as of December 31, 2003, which are reported as a component of other comprehensive income, net of income tax effects.

The following table displays the Company's plans with accumulated benefit obligations in excess of plan assets:

	DECEMBER 31,					
	2002			2003		
	PENSION BENEFITS	RESTORATION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	RESTORATION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)					
Accumulated benefit obligation......	$ 1,446	$ 83	$ 479	$ 1,589	$ 75	$ 518
Projected benefit obligation........	1,550	86	479	1,692	77	518
Plan assets.........................	1,054	--	131	1,194	--	150

(c) SAVINGS PLAN

The Company has a qualified 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) and an Employee Stock Ownership Plan (ESOP) under Section 4975(e)(7) of 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 through the ESOP.

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 ESOP includes company stock 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. It is anticipated that the loan will be repaid in full in 2004 and all remaining shares of Company common stock that secure the loan will be released from the encumbrance and allocated to participant accounts under the plan in 2004.

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, 2002 and 2003 were as follows:

	DECEMBER 31,	
	2002	2003
Allocated shares transferred/distributed from the savings plan...............	5,943,297	6,329,002
Allocated shares...	8,734,810	13,076,801
Unearned shares(1)(2)..	4,915,577	911,847
Total ESOP shares(1)(2)..	19,593,684	20,317,650
Fair value of unearned ESOP shares...	$ 41,782,405	$ 8,832,890

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(1) During 2002, unearned shares and total shares were increased by 831,500 shares 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.

(2) During 2003, unearned shares and total shares were increased by 723,966 shares due to additional shares purchased with proceeds from the sale of Texas Genco common stock, which was received in connection with the Texas Genco Distribution.

As a result of the ESOP, the savings plan has significant holdings of CenterPoint Energy common stock. As of December 31, 2003, an aggregate of 34,749,760 shares of CenterPoint Energy's common stock were held by the savings plan, which represented 28% 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 $51 million, $47 million and $38 million in 2001, 2002 and 2003, respectively. Included in these amounts are $16 million and $6 million of savings plan benefit expense for 2001 and 2002, respectively, related to Reliant Resources' participants, which is reflected as discontinued operations in the Statements of Consolidated Operations. Also, included in these amounts are $6 million, $9 million and $7 million of savings plan benefit expense for 2001, 2002 and 2003, respectively, related to Texas Genco 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 healthcare and life insurance benefits for participants in the long-term disability plan) were $6 million, $12 million and $10 million in 2001, 2002 and 2003, respectively. Included in the net benefit cost in 2003 is $1 million of expense related to Texas Genco participants, which is reflected in discontinued operations in the Statements of Consolidated Operations.

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 non-qualified deferred compensation plans that provide benefits payable to directors, officers and certain key employees or their designated beneficiaries at specified future dates, upon termination, retirement or death. Benefit payments are made from the general assets of the Company. During 2001, 2002 and 2003, the Company recorded benefit expense relating to these programs of $17 million, $11 million and $13 million, respectively. Included in the amounts are $4 million and $0.2 million of benefit expense for 2001 and 2002, related to Reliant Resources participants, which is reflected as discontinued operations in the Statements of Consolidated Operations. Included in "Benefit Obligations" in the accompanying Consolidated Balance Sheets at December 31, 2002 and 2003 was $132 million and $127 million, respectively, relating to deferred compensation plans.

(f) CHANGE OF CONTROL AGREEMENTS AND OTHER EMPLOYEE MATTERS

In December 2003, the Company entered into agreements with certain of its executive officers that generally provide, to the extent applicable, in the case of a change of control of the Company and termination of employment, severance benefits of up to three times annual base salary plus bonus and other benefits.

As of December 31, 2003, approximately 30% of the Company's employees are subject to collective bargaining agreements. Three of these agreements, covering approximately 5% of the Company's employees, have expired or will expire in 2004.

The Minnegasco division of our natural gas distribution business has 512 bargaining unit employees that are covered by collective bargaining unit agreements that have expired or will expire in 2004. An agreement with the

International Brotherhood of Electrical Workers Local 949, which expired in December 2003, was renegotiated in February 2004 covering 267 of these employees. The remaining 245 employees are covered by a collective bargaining agreement with the Office and Professional Employees International Union Local 12, which expires in May 2004.

(11) INCOME TAXES

The Company's current and deferred components of income tax expense (benefit) were as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
		(IN MILLIONS)	
Current:			
Federal	$ 268	$ (78)	$ (301)
State	(2)	9	5
Total current	266	(69)	(296)
Deferred:			
Federal	(65)	330	487
State	--	11	14
Total deferred	(65)	341	501
Income tax expense	$ 201	$ 272	$ 205

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
		(IN MILLIONS)	
Income from continuing operations before income taxes	$ 558	$ 754	$ 614
Federal statutory rate	35%	35%	35%
Income taxes at statutory rate	195	264	215
Net addition (reduction) in taxes resulting from:			
State income taxes, net of valuation allowances and federal income tax benefit	(2)	13	12
Capital loss benefit	--	(72)	--
Amortization of investment tax credit	(5)	(5)	(8)
Excess deferred taxes	(1)	(3)	(4)
Goodwill amortization	16	--	--
Valuation allowance, capital loss(1)	--	72	--
Other, net	(2)	3	(10)
Total	6	8	(10)
Income tax expense	$ 201	$ 272	$ 205
Effective rate	36.0%	36.1%	33.4%

(1) See discussion below, under tax attribute carryforwards.

Following are the Company's tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases:

	DECEMBER 31, 2002	DECEMBER 31, 2003
	(IN MILLIONS)	
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	$ 9	$ 9
Non-trading derivative assets, net	35	20
Current portion of capital loss	8	--
Total current deferred tax assets	52	29
Non-current:		
Employee benefits	370	288
Disallowed plant cost, net	--	18
Operating and capital loss carryforwards	86	141
Contingent liabilities associated with discontinuance of SFAS No. 71	108	74
Foreign exchange gains	16	16
Impairment of foreign asset	51	--
Other	72	119
Valuation allowance	(83)	(73)
Total non-current deferred tax assets	620	583
Total deferred tax assets, net	$ 672	$ 612
Deferred tax liabilities:		
Current:		
Unrealized gain on indexed debt securities	$ 276	$ 284
Unrealized gain on Time Warner investment	61	91
Total current deferred tax liabilities	337	375
Non-current:		
Depreciation	1,568	1,717
Regulatory assets, net	634	951
Deferred gas costs	3	--
Other	47	81
Total non-current deferred tax liabilities	2,252	2,749
Total deferred tax liabilities	2,589	3,124
Accumulated deferred income taxes, net	$ 1,917	$ 2,512

CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. The 1997 through 2000 consolidated federal income tax returns are currently under audit.

Tax Attribute Carryforwards. At December 31, 2003, the Company had $45 million and $348 million of federal and state net operating loss carryforwards, respectively. The losses are available to offset future federal and state taxable income through the year 2022. Substantially all of the state loss carryforwards will expire between 2014 and 2020. The Company also had $333 million of capital loss carryforwards which will expire in 2007 and 2008.

In conjunction with the Reliant Resources Distribution in 2002, the Company realized a previously unrecorded capital loss attributable to the excess of the tax basis over the book carrying value in former subsidiaries sold to Reliant Resources. The tax benefit of this excess tax basis is recorded under SFAS No. 109, "Accounting for Income Taxes", when realizable under the facts, such as a loss from a previously deferred taxable disposition that is triggered by a spin-off. In 2003, the Company realized additional capital losses attributable to the disposition of the stock of foreign subsidiaries. Capital losses may be used in the three taxable years preceding the year of the loss or the five taxable years following the year of the loss. Federal tax law only allows utilization of capital losses to offset capital gains. The Company believes that some uncertainty exists with respect to the Company's ability to generate capital gains during the utilization period; therefore, a valuation allowance has been established for the carryforwards not expected to be realized.

The valuation allowance reflects a net increase of $68 million in 2002 and a net decrease of $10 million in 2003. These net changes resulted from a reassessment of the Company's future ability to use federal capital loss carryforwards and state tax net operating loss carryforwards

Tax Refunds. In 2003, the Company received refunds from the Internal Revenue Service of $203 million related to the federal tax net operating loss and capital loss generated in 2002. Of this amount, $8 million related to refunds generated from the carryback of the federal capital loss.

(12) COMMITMENTS AND CONTINGENCIES

(a) FUEL COMMITMENTS

Fuel commitments, excluding Texas Genco, include natural gas contracts related to the Company's natural gas distribution 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, 2003 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 natural gas supply contracts are approximately $1 billion in 2004, $565 million in 2005, $344 million in 2006, $171 million in 2007 and $24 million in 2008.

(b) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations, excluding Texas Genco, under non-cancelable long-term operating leases at December 31, 2003, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2004	$ 31
2005	16
2006	14
2007	10
2008	7
2009 and beyond	9
Total	$ 87

Total lease expense for all operating leases was $35 million, $36 million and $35 million during 2001, 2002 and 2003, respectively.

(c) TEXAS GENCO COMMITMENTS

Environmental Capital Commitments. Texas Genco anticipates investing up to $131 million in capital and other special project expenditures between 2004 and 2008 for environmental compliance. Texas Genco anticipates expenditures to be as follows (in millions):

2004	$ 42
2005	32
2006	43
2007	14
2008(1)	--
Total	$ 131

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(1) NOx control estimates for 2008 have not been finalized.

Fuel Commitments. 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, 2003 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 and lignite mining and lease agreements that extend through 2012 are approximately $309 million in 2004, $251 million in 2005, $256 million in 2006, $248 million in 2007 and $162 million in 2008. Purchase commitments related to purchased power are not material to Texas Genco's operations.

Lease Commitments. The following table sets forth information concerning Texas Genco's obligations under non-cancelable long-term operating leases at December 31, 2003 (in millions):

2004	$ 11
2005	11
2006	10
2007	10
2008	10
2009 and beyond	47
Total	$ 99

Total lease expense for all operating leases was $10 million, $11 million and $11 million during 2001, 2002 and 2003, respectively.

(d) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

Reliant Resources Indemnified Litigation

The Company, CenterPoint Houston or their predecessor, Reliant Energy, and certain of their 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 below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. 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.

Electricity and Gas Market Manipulation Cases. A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories, including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of $1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, some of these complaints have been dismissed by the trial court and are on appeal, but most of the lawsuits remain in early procedural stages. Our former subsidiary, Reliant Resources, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. Reliant Resources, some of its subsidiaries and in some cases, corporate officers of some of those companies, have been named as defendants in these suits.

The Company, CenterPoint Houston or their predecessor, Reliant Energy, have also been named in approximately 25 of these lawsuits, which were instituted in 2002 and 2003 and are pending in state courts in San Diego, San Francisco and Los Angeles Counties and in federal district courts in San Francisco, San Diego, Los Angeles and Nevada. However, neither the Company nor Reliant Energy was a participant in the electricity or natural gas markets in California. The Company and Reliant Energy have been dismissed from certain of the

lawsuits, either voluntarily by the plaintiffs or by order of the court and the Company believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from the remaining cases.

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 initial public offering of Reliant Resources common stock in May 2001 (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 purchasers of common stock of Reliant Energy or Reliant Resources during certain time periods ranging from February 2000 to May 2002, including purchasers of common stock that can be traced 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 January 2004 the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud, but claims based on alleged misrepresentations in the registration statement issued in the Reliant Resources Offering remain.

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 January 2004 the trial judge ordered dismissal of plaintiffs' claims on the ground that they did not set forth a claim, but granted the plaintiffs leave to amend their complaint.

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 on behalf of the plans and 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 January 2004 the trial judge dismissed the complaints against a number of defendants, but allowed the case to proceed against members of the Reliant Energy benefits committee.

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 of Reliant Resources 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 the lawsuits described under "Other Class Action 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.

Other Legal Matters

Texas Antitrust 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 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. In February 2004, this complaint was amended to add the Company and CenterPoint Houston, as successors to Reliant Energy, and Texas Genco, LP as defendants. The plaintiff's principal allegations have previously been investigated by the Texas Utility Commission and found to be without merit. The Company also believes the plaintiff's allegations are without merit and will seek their dismissal.

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 the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial of the original claimant cities (but not the class of cities), the trial court decertified the class and reduced the damages awarded by the jury to $1.7 million, including interest, plus an award of $13.7 million in legal fees. Despite other jury findings for the plaintiffs, the trial court's judgment was based on the jury's finding 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. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, a 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 filed a petition for review at the Texas Supreme Court, which declined to hear the case, although the time period for the Three Cities to file a motion for rehearing has not yet expired. The extent to which issues in the Three Cities case may affect the claims of the other cities served by CenterPoint Houston cannot be assessed until judgments are final and no longer subject to appeal.

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 two mismeasurement lawsuits against approximately 245 pipeline companies and their affiliates pending in state court in Stevens County, Kansas. In one case (originally filed in May 1999 and amended four times), the plaintiffs purport to represent a class of royalty owners who allege that the defendants have engaged in systematic mismeasurement of the volume of natural gas for more than 25 years. The plaintiffs amended their petition in this suit in July 2003 in response to an order from the judge denying certification of the plaintiffs' alleged class. In the amendment the plaintiffs dismissed their claims

against certain defendants (including two CERC subsidiaries), limited the scope of the class of plaintiffs they purport to represent and eliminated previously asserted claims based on mismeasurement of the Btu content of the gas. The same plaintiffs then filed a second lawsuit, again as representatives of a class of royalty owners, in which they assert their claims that the defendants have engaged in systematic mismeasurement of the Btu content of natural gas for more than 25 years. In both lawsuits, the plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees.

Gas Cost Recovery Litigation. 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 Utilities 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. In February 2004, another suit was filed against CERC in Calcasieu Parish, Louisiana, seeking to recover alleged overcharges for gas or gas services allegedly provided by Entex without advance approval by the LPSC. The plaintiffs in these cases seek injunctive and declaratory relief, restitution for the alleged overcharges, exemplary damages or trebling of actual damages and civil penalties. In these cases, the Company, CERC and Entex Gas Marketing Company deny that they have overcharged any of their customers for natural gas and believe that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

Environmental Matters

Hydrocarbon Contamination. CERC Corp. and certain of its subsidiaries are among some of the defendants in lawsuits filed beginning in August 2001 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," which was formerly operated by a predecessor in interest of CERC Corp. 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 December 31, 2003, CERC had accrued $19 million for remediation of certain Minnesota sites. At December 31, 2003, the estimated range of possible remediation costs for these sites 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 $12.5 million as of December 31, 2003 to be used for 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.

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) TEXAS GENCO MATTERS

Clean Air Standards. The Texas electric restructuring law and regulations adopted by the Texas Commission on Environmental Quality (TCEQ) in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. Texas Genco is currently installing cost-effective controls at its generating plants to comply with these requirements. Through December 31, 2003, Texas Genco has invested $664 million for NOx emission control, and plans to make expenditures of up to approximately $131 million during the years 2004 through 2007. Further revisions to these NOx standards may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards. 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 Texas Genco's emission control plan is the most cost-effective option for achieving compliance with applicable air quality standards for Texas Genco's generating facilities and the final amount for recovery will be determined in the 2004 True-Up Proceeding.

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 $10.6 billion as of December 31, 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 $100.6 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 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.

Nuclear Decommissioning. CenterPoint Houston contributed $14.8 million in 2001 to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project. CenterPoint Houston contributed $2.9 million in both 2002 and 2003 to these trusts. 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 $189 million as of December 31, 2003, of which approximately 37% were fixed-rate debt securities and the remaining 63% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 2(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. For information regarding the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(c).

(13) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, investments in debt and equity securities classified as "available-for-sale" and "trading" in accordance with SFAS No. 115, and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. The fair values of non-trading derivative assets and liabilities are equivalent to their carrying amounts in the Consolidated Balance Sheets at December 31, 2002 and 2003 and have been determined using quoted market prices for the same or similar instruments when available or other estimation techniques (see Note 5). Therefore, these financial instruments are stated at fair value and are excluded from the table below.

	DECEMBER 31, 2002		DECEMBER 31, 2003	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN MILLIONS)			
Financial liabilities:				
Long-term debt (excluding capital leases)	$ 6,135	$ 6,349	$ 10,820	$ 11,325
Trust preferred securities	706	476	--	--

The trust preferred securities were deconsolidated effective December 31, 2003 pursuant to the adoption of FIN 46. This resulted in the junior subordinated debentures held by the trusts being reported as long-term debt. For further discussion, see Note 2(n).

(14) EARNINGS PER SHARE

The following table reconciles numerators and denominators of the Company's basic and diluted earnings per share (EPS) calculations:

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE AND SHARE AMOUNTS)		
Basic EPS calculation:			
Income from continuing operations before cumulative effect of accounting change	$ 357	$ 482	$ 409
Income (loss) from discontinued operations	565	(4,402)	75
Cumulative effect of accounting change, net of tax	58	--	--
Net income (loss) attributable to common shareholders	$ 980	$ (3,920)	$ 484
Weighted average shares outstanding	289,776,000	297,997,000	303,867,000
Basic EPS:			
Income from continuing operations before cumulative effect of accounting change	$ 1.23	$ 1.62	$ 1.35
Income (loss) from discontinued operations	1.95	(14.78)	0.24
Cumulative effect of accounting change, net of tax	0.20	--	--
Net income (loss) attributable to common shareholders	$ 3.38	$ (13.16)	$ 1.59
Diluted EPS calculation:			
Net income (loss) attributable to common shareholders	$ 980	$ (3,920)	$ 484
Plus: Income impact of assumed conversions:			
Interest on 6 1/4% convertible trust preferred securities	--	--	--
Total earnings effect assuming dilution	$ 980	$ (3,920)	$ 484
Weighted average shares outstanding	289,776,000	297,997,000	303,867,000
Plus: Incremental shares from assumed conversions(1)			
Stock options	1,650,000	846,000	851,000
Restricted stock	754,000	784,000	1,484,000
6 1/4% convertible trust preferred securities	13,000	17,000	18,000
Weighted average shares assuming dilution	292,193,000	299,644,000	306,220,000
Diluted EPS:			
Income from continuing operations before cumulative effect of accounting change	$ 1.22	$ 1.61	$ 1.34
Income (loss) from discontinued operations	1.93	(14.69)	0.24
Cumulative effect of accounting change, net of tax	0.20	--	--
Net income (loss) attributable to common shareholders	$ 3.35	$ (13.08)	$ 1.58

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(1) Options to purchase 2,074,437, 9,709,272 and 10,106,673 shares were outstanding for the years ended December 31, 2001, 2002 and 2003, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares for the respective years.

(15) UNAUDITED QUARTERLY INFORMATION

The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution, the sale of the Company's remaining Latin America operations subsequent to December 31, 2002, the sale of CEMS in November 2003 and the pending sale of Texas Genco as described in Note 3. The consolidated financial statements present the Reliant Resources and Texas Genco businesses and the Company's Latin America and CEMS operations as discontinued operations, in accordance with SFAS No. 144. Accordingly, the consolidated financial statements reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Summarized quarterly financial data is as follows:

	YEAR ENDED DECEMBER 31, 2002			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 1,752	$ 1,385	$ 1,390	$ 1,911
Operating income	398	365	499	178
Income from continuing operations	169	108	154	51
Discontinued operations	(138)	128	(4,278)	(114)
Net income (loss) attributable to common shareholders	$ 31	$ 236	$ (4,124)	$ (63)
Basic earnings (loss) per share:(1)				
Income from continuing operations	$ 0.57	$ 0.36	$ 0.52	$ 0.17
Discontinued operations	(0.46)	0.43	(14.32)	(0.38)
Net income (loss) attributable to common shareholders	$ 0.11	$ 0.79	$ (13.80)	$ (0.21)
Diluted earnings (loss) per share:(1)				
Income from continuing operations	$ 0.57	$ 0.36	$ 0.51	$ 0.17
Discontinued operations	(0.46)	0.43	(14.28)	(0.38)
Net income (loss) attributable to common shareholders	$ 0.11	$ 0.79	$ (13.77)	$ (0.21)

	YEAR ENDED DECEMBER 31, 2003			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 2,548	$ 1,517	$ 1,608	$ 2,117
Operating income	369	290	418	278
Income from continuing operations	122	93	147	47
Discontinued operations	47	(30)	35	23
Net income attributable to common shareholders	$ 169	$ 63	$ 182	$ 70
Basic earnings per share:(1)				
Income from continuing operations	$ 0.40	$ 0.31	$ 0.48	$ 0.15
Discontinued operations	0.16	(0.10)	0.12	0.08
Net income attributable to common shareholders	$ 0.56	$ 0.21	$ 0.60	$ 0.23
Diluted earnings per share:(1)				
Income from continuing operations	$ 0.40	$ 0.31	$ 0.48	$ 0.15
Discontinued operations	0.16	(0.10)	0.11	0.08
Net income attributable to common shareholders	$ 0.56	$ 0.21	$ 0.59	$ 0.23

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(1) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share.

(16) 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 accounting policies of the business segments

are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to business segments. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility, Reliant Energy HL&P, became a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is reported separately in the Electric Transmission & Distribution business segment. Note that certain estimates and allocations have been used to separate historical, (pre-January 1, 2002) Electric Generation business segment data from the Electric Transmission & Distribution business segment data. The Electric Generation operations are presented as discontinued operations within these consolidated financial statements. Reportable business segments presented herein do not include the operations of Reliant Resources which are 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.

Long-lived assets include net property, plant and equipment, net goodwill and other intangibles and equity investments in unconsolidated subsidiaries. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

The Company has identified the following reportable business segments: Electric Transmission & Distribution, Natural Gas Distribution, Pipelines and Gathering and Other Operations. For a description of the financial reporting business segments, see Note 1. Financial data for business segments and products and services are as follows:

	ELECTRIC TRANSMISSION & DISTRIBUTION	NATURAL GAS DISTRIBUTION	PIPELINES AND GATHERING	OTHER OPERATIONS	DISCONTINUED OPERATIONS	RECONCILING ELIMINATIONS	CONSOLIDATED
				(IN MILLIONS)			
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001:							
Revenues from external customers...	$ 2,100	$ 4,737	$ 307	$ 4	$ --	$ --	$ 7,148
Intersegment revenues.............	--	5	108	--	--	(113)	--
Depreciation and amortization......	299	147	58	5	--	--	509
Operating income (loss)...........	863	130	137	(68)	--	--	1,062
Total assets......................	7,910	4,083	2,379	1,145	16,840	(337)	32,020
Expenditures for long-lived assets..........................	527	209	54	12	--	--	802
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002:							
Revenues from external customers...	$ 2,222 (1)	$ 3,953 (2)	$ 255 (3)	$ 8	$ --	$ --	$ 6,438
Intersegment revenues.............	--	7	119	22	--	(148)	--
Depreciation and amortization......	271	126	41	20	--	--	458
Operating income (loss)...........	1,096	198	153	(7)	--	--	1,440
Total assets......................	9,321	4,428	2,500	1,345	4,594	(1,553)	20,635
Expenditures for long-lived assets..........................	261	196	70	39	--	--	566
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003:							
Revenues from external customers...	$ 2,124 (1)	$ 5,407 (2)	$ 244 (3)	$ 15	$ --	$ --	$ 7,790
Intersegment revenues.............	--	28	163	13	--	(204)	--
Depreciation and amortization......	270	136	40	20	--	--	466
Operating income (loss)...........	1,020	202	158	(25)	--	--	1,355
Total assets......................	10,326	4,661	2,519	1,746	4,244	(2,035)	21,461
Expenditures for long-lived assets..........................	218	199	66	14	--	--	497

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(1) Sales to subsidiaries of Reliant Resources in 2002 and 2003 represented approximately $820 million and $948 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002. Reliant Resources has been presented as discontinued operations in these consolidated financial statements.

(2) Sales to Texas Genco in 2002 and 2003 represented approximately $26 million and $29 million, respectively, of the Natural Gas Distribution business segment's revenues from external customers. Texas Genco has been presented as discontinued operations in these consolidated financial statements.

(3) Sales to Texas Genco in 2002 and 2003 represented approximately $2 million and $3 million, respectively, of the Pipelines and Gathering business segment's revenues from external customers. Texas Genco has been presented as discontinued operations in these consolidated financial statements.

	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
	(IN MILLIONS)		
REVENUES BY PRODUCTS AND SERVICES:			
Retail electricity sales	$ 2,100	$ --	$ --
Electric delivery sales	--	1,525	1,463
ECOM revenue	--	697	661
Retail gas sales	4,645	3,858	5,311
Gas transport	307	255	244
Energy products and services	96	103	111
Total	$ 7,148	$ 6,438	$ 7,790

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CenterPoint Energy, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CenterPoint Energy, Inc. and its subsidiaries (the Company) as of December 31, 2002 and 2003, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and the financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedules based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company distributed its 83% ownership interest in Reliant Resources, Inc. on September 30, 2002. The loss on distribution and the results of operations for Reliant Resources, Inc. for periods prior to the distribution are included in discontinued operations in the accompanying consolidated financial statements. On July 21, 2004, the Company entered into a definitive agreement to sell its electric generation subsidiary, Texas Genco Holdings, Inc. The loss on disposal and the results of operations for Texas Genco Holdings, Inc. are presented as discontinued operations for all periods in the accompanying consolidated financial statements.

As discussed in Note 2(d) to the consolidated financial statements, on January 1, 2002, the Company changed its method of accounting for goodwill and certain intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

As discussed in Note 2(n) to the consolidated financial statements, on January 1, 2003, the Company recorded asset retirement obligations to conform to Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP

Houston, Texas
March 12, 2004
(December 7, 2004 as to the presentation of Texas Genco Holdings, Inc. as discontinued operations as described in Note 3)

CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF
CENTERPOINT ENERGY, INC. (PARENT COMPANY)
STATEMENTS OF OPERATIONS

	FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH DECEMBER 31, 2002	FOR THE YEAR ENDED DECEMBER 31, 2003
	(IN THOUSANDS)	
Equity Income (Losses) of Subsidiaries	$ (4,907)	$ 850,394
Interest Income from Subsidiaries	29,878	63,266
Loss on Disposal of Subsidiary	(4,371,464)	--
Loss on Indexed Debt Securities	(7,964)	(96,473)
Operation and Maintenance Expenses	(5,793)	(12,944)
Depreciation and Amortization	(5,978)	(14,029)
Taxes Other than Income	(6,024)	(5,091)
Interest Expense to Subsidiaries	(31,198)	(93,100)
Interest Expense	(188,027)	(393,717)
Income Tax Benefit	64,916	185,361
Net Income (Loss)	$ (4,526,561)	$ 483,667

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF
CENTERPOINT ENERGY, INC. (PARENT COMPANY)
BALANCE SHEETS

	DECEMBER 31, 2002	DECEMBER 31, 2003
	(IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 222,511	$ 21,617
Notes receivable -- affiliated companies	492,246	201,887
Accounts receivable -- affiliated companies	130,712	89,835
Other assets	10,197	13,675
Total current assets	855,666	327,014
PROPERTY, PLANT AND EQUIPMENT, NET	114,240	111,533
OTHER ASSETS:		
Investment in subsidiaries	8,090,581	8,620,685
Notes receivable -- affiliated companies	984,063	443,090
Accumulated deferred tax asset	319,675	213,858
Other assets	185,719	125,115
Total other assets	9,580,038	9,402,748
TOTAL ASSETS	$ 10,549,944	$ 9,841,295
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable -- affiliated companies	$ 37,292	$ 6,018
Current portion of long-term debt	272,422	119,564
Indexed debt securities derivative	224,881	321,352
Accounts payable:		
Affiliated companies	50,948	79,647
Other	8,869	13,362
Taxes accrued	609,512	594,476
Interest accrued	89,206	41,246
Other	73,334	32,277
Total current liabilities	1,366,464	1,207,942
OTHER LIABILITIES:		
Benefit obligations	622,284	603,845
Notes payable -- affiliated companies	1,679,706	1,677,720
Other	365,646	314,366
Total non-current liabilities	2,667,636	2,595,931
LONG-TERM DEBT	5,104,474	4,311,394
SHAREHOLDERS' EQUITY:		
Common stock	3,050	3,063
Additional paid-in capital	3,046,043	2,868,416
Retained deficit	(1,062,083)	(700,033)
Unearned ESOP stock	(78,049)	(2,842)
Accumulated other comprehensive loss	(497,591)	(442,576)
Total shareholders' equity	1,411,370	1,726,028
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 10,549,944	$ 9,841,295

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF
CENTERPOINT ENERGY, INC. (PARENT COMPANY)
STATEMENTS OF CASH FLOWS

	FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH DECEMBER 31, 2002	FOR THE YEAR ENDED DECEMBER 31, 2003
	(IN THOUSANDS)	
OPERATING ACTIVITIES:		
Net income (loss)	$ (4,526,561)	$ 483,667
Add: Loss on disposal of subsidiary	4,371,464	--
Adjusted income (loss)	(155,097)	483,667
Non-cash items included in net income (loss):		
Equity losses (income) of subsidiaries	4,907	(850,394)
Deferred income tax expense (benefit)	(52,117)	65,778
Depreciation and amortization	5,978	14,029
Amortization of debt issuance costs	32,649	112,046
Loss on indexed debt securities	7,964	96,473
Changes in working capital:		
Accounts receivable to affiliates, net	39,540	89,076
Accounts payable	(1,302)	4,493
Other current assets	(6,571)	(3,478)
Other current liabilities	(101,273)	(42,631)
Common stock dividends received from subsidiaries	57,645	121,695
Other	(12,681)	72,747
Net cash provided by (used in) operating activities	(180,358)	163,501
INVESTING ACTIVITIES:		
Investment in subsidiaries	(181,654)	32,832
Short-term notes receivable from affiliates	(178,127)	290,359
Long-term notes receivable from affiliates	1,067,280	540,973
Capital expenditures, net	(4,274)	(6,596)
Net cash provided by investing activities	703,225	857,568
FINANCING ACTIVITIES:		
Changes in short-term borrowings	(21,000)	--
Payments on long-term debt	(168,558)	(6,727,055)
Proceeds from long-term debt	--	5,778,242
Debt issuance costs	(87,798)	(117,641)
Common stock dividends paid	(48,672)	(122,249)
Short-term notes payable to affiliates	25,177	(31,274)
Long-term notes payable to affiliates	495	(1,986)
Net cash used in financing activities	(300,356)	(1,221,963)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	222,511	(200,894)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	--	222,511
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 222,511	$ 21,617

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- NOTES TO CONDENSED FINANCIAL INFORMATION (PARENT COMPANY)

(1) The condensed parent company financial statements and notes should be read in conjunction with the consolidated financial statements and notes of CenterPoint Energy, Inc. (CenterPoint Energy or the Company) appearing in the Annual Report on Form 10-K. CenterPoint Energy, Inc. is a public utility holding company that became the parent of Reliant Energy, Incorporated (Reliant Energy) and its subsidiaries on August 31, 2002 as part of a corporate restructuring of Reliant Energy (the Restructuring). CenterPoint Energy is a registered public utility holding company under the 1935 Act. Prior to the Restructuring, Reliant Energy was a public utility holding company that was exempt from registration under the 1935 Act. After the Restructuring, an exemption was no longer available for the corporate structure that the Texas Utility Commission required CenterPoint Energy to adopt under the Texas electric restructuring law. CenterPoint Energy did not conduct any activities other than those incident to its formation until September 1, 2002. Accordingly, statements of operations and cash flows would not provide meaningful information and have been omitted for periods prior to September 1, 2002.

(2) As a registered public utility holding company, CenterPoint Energy and its subsidiaries except Texas Genco Holdings, Inc. (Texas Genco) are subject to a comprehensive regulatory scheme imposed by the Securities and Exchange Commission (SEC) in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, CenterPoint Energy is required to obtain approval from the SEC under the 1935 Act.

Prior to the Restructuring, CenterPoint Energy and Reliant Energy obtained an order from the SEC that authorized the Restructuring transactions and granted those companies certain authority with respect to system financing, dividends and other matters.

CenterPoint Energy received an order from the SEC under the 1935 Act on June 30, 2003 and supplemental orders thereafter relating to its financing activities and those of its regulated subsidiaries, as well as other matters. The orders are effective until June 30, 2005. As of December 31, 2003, the orders generally permitted CenterPoint Energy and its regulated subsidiaries to issue securities to refinance indebtedness outstanding at June 30, 2003, and authorized CenterPoint Energy and its regulated subsidiaries to issue certain incremental external debt securities and common and preferred stock through June 30, 2005, without prior authorization from the SEC. Further, the SEC has reserved jurisdiction over the issuance by CenterPoint Energy and its regulated subsidiaries of certain amounts of incremental external debt securities, so that CenterPoint Energy is required to obtain SEC approval prior to issuing those incremental amounts.

The orders require that if CenterPoint or any of its regulated subsidiaries issues any security that is 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 the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds. Under the orders, CenterPoint Energy's common equity as a percentage of total capitalization must be at least 30%. The SEC has acknowledged that prior to the monetization of Texas Genco and the securitization of the true-up components, the Company's common equity as a percentage of total capitalization is expected to remain less than 30%. In addition, after the securitization, the Company's common equity as a percentage of total capitalization, including securitized debt, is expected to be less than 30%, which the SEC has permitted for other companies.

(3) On September 30, 2002, CenterPoint Energy distributed to its shareholders 240 million shares of Reliant Resources common stock, which represented CenterPoint Energy's approximately 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 total value of the Reliant Resources Distribution, after the impairment charge discussed below, was $847 million.

As a result of the spin-off of Reliant Resources, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of $4.4 billion in 2002. This loss represented the excess of the carrying value of CenterPoint Energy's net investment in Reliant Resources over the market value of Reliant Resources' common stock.

CenterPoint Energy's financial statements reflect the reclassifications necessary to present Reliant Resources as discontinued operations for all periods shown. Through the date of the spin-off, Reliant Resources' assets and liabilities are shown in CenterPoint Energy's Consolidated Balance Sheets as current and non-current assets and liabilities of discontinued operations.

(4) CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003. As a result of the distribution of Texas Genco common stock, CenterPoint Energy recorded a pre-tax impairment charge of $399 million, which was reflected as a regulatory asset in the Consolidated Balance Sheet as of December 31, 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 Texas Genco's common stock. Additionally, in connection with the distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of $146 million in its Consolidated Balance Sheet in the first quarter of 2003.

On July 21, 2004, CenterPoint Energy and Texas Genco announced a definitive agreement for Texas Genco LLC (previously known as GC Power Acquisition LLC), a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco for approximately $3.65 billion in cash. CenterPoint Energy's consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

(5) On October 7, 2003, the Company entered into a three-year credit facility composed of a revolving credit facility of $1.4 billion and a $925 million term loan from institutional investors. The facility matures on October 7, 2006 and requires prepayments aggregating $20 million. Borrowings under the revolver ($523 million at December 31, 2003) bear interest based on the London inter-bank offered rate (LIBOR) under a pricing grid tied to the Company's credit ratings. At the Company's current ratings, the interest rate for borrowings under the revolver is LIBOR plus 300 basis points. The interest rate for borrowings under the term loan is LIBOR plus 350 basis points. The Company's Texas Genco stock is pledged to the lenders under the facility and the Company has agreed to limit the dividend paid on its common stock to $0.10 per share per quarter. The facility provides that until such time as the facility has been reduced to $750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Energy Houston Electric, LLC's $1.3 billion term loan, and the net cash proceeds of any sales of the common stock of Texas Genco owned by the Company or of material portions of Texas Genco's assets shall be applied to repay loans under the facility and reduce that facility. Any money raised in other future capital markets offerings and in the sale of other significant assets is not required to be used to pay down the facility. The facility requires the Company not to fall below a minimum interest coverage ratio and not to exceed a maximum leverage ratio. The facility refinanced and replaced a prior bank facility that, as of September 30, 2003, consisted of an $856 million term loan and a $1.5 billion revolver. In connection with entering into the new facility, the Company paid up-front fees of approximately $16 million and avoided a payment of $18 million which would have been due under the prior facility on October 9, 2003. Additionally, in October 2003, the Company expensed $21 million of unamortized loan costs associated with the prior facility.

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, the Company 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. (Moody's) and Standard & Poor's Ratings Services (S&P), 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. For any six-month 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 term loan repayments and to repay revolver borrowings under the Company's prior facility in the amount of $557 million and $0.75 million, respectively.

On May 27, 2003, the Company 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 repayments of the term loan under the Company's prior facility.

In July 2003, the Company remarketed two series of insurance-backed pollution control bonds aggregating $151 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, $92 million mature on August 1, 2015 and $59 million mature on October 15, 2015.

On September 9, 2003, the Company issued $200 million aggregate principal amount of 7.25% senior notes due September 1, 2010. Proceeds in the amount of approximately $198 million were used to repay a portion of the term loan under the Company's prior facility. As a result of the term loan repayments made from the proceeds of the September 9, 2003 debt issuance, in September 2003, the Company expensed $12.2 million of unamortized loan costs that were associated with the term loan under the Company's prior facility.

On December 17, 2003, the Company issued $255 million aggregate principal amount of convertible senior notes due January 15, 2024 with an interest rate of 2.875%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 78.064 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% 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 and S&P 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. CenterPoint Energy may elect to satisfy part or all of its conversion obligation by delivering cash in lieu of shares of CenterPoint Energy common stock. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after January 15, 2007, 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. For any six-month 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 to redeem, in January 2004, $250 million liquidation amount of the 8.125% trust preferred securities issued by HL&P Capital Trust I. Pending such use, the net proceeds were used to repay a portion of the outstanding borrowings under the Company's revolving credit facility.

CENTERPOINT ENERGY, INC.

SCHEDULE II -- QUALIFYING VALUATION ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2003

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
		ADDITIONS		
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	DEDUCTIONS FROM RESERVES(1)	BALANCE AT END OF PERIOD
		(IN THOUSANDS)		
Year Ended December 31, 2003:				
Accumulated provisions:				
Uncollectible accounts receivable	$ 24,294	$ 24,037	$ 17,531	$ 30,800
Deferred tax asset valuation allowance ...	82,929	(9,681)	--	73,248
Year Ended December 31, 2002:				
Accumulated provisions:				
Uncollectible accounts receivable	$ 46,047	$ 25,883	$ 47,636	$ 24,294
Deferred tax asset valuation allowance ...	15,439	67,490	--	82,929
Year Ended December 31, 2001:				
Accumulated provisions:				
Uncollectible accounts receivable	$ 37,521	$ 58,745	$ 50,219	$ 46,047
Deferred tax asset valuation allowance ...	47,677	(32,238)	--	15,439

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(1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

EXHIBIT 99.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in CenterPoint Energy, Inc.'s (i) Registration Statement Nos. 333-120306, 333-116246, 333-114543, 333-114440 and 333-110348 on Form S-3; (ii) Registration Statement Nos. 333-105733 and 333-115976 on Form S-8; (iii) Post-Effective Amendment No. 1 to Registration Statement Nos. 333-33301, 333-33303, 333-58433, 333-81119 and 333-68290 on Form S-3; (iv) Post-Effective Amendment No. 1 to Registration Statement Nos. 333-32413, 333-49333, 333-38188, 333-60260, 333-98271 and 333-101202 on Form S-8; (v) Post-Effective Amendment No. 5 to Registration Statement No. 333-11329 on Form S-8 of our reports dated March 12, 2004 (December 7, 2004 as to the presentation of Texas Genco, Holdings, Inc. as discontinued operations as described in note 3) appearing in this current report on Form 8-K under the Securities Exchange Act of 1934 of CenterPoint Energy, Inc. dated December 7, 2004. Such reports express an unqualified opinion and include explanatory paragraphs relating to the distribution of Reliant Energy, Inc. (formerly Reliant Resources, Inc.), the definitive agreement to sell Texas Genco Holdings, Inc., the change in method of accounting for goodwill and certain intangible assets and the recording of asset retirement obligations.

Deloitte & Touche LLP

Houston, Texas
December 7, 2004