NICE SYSTEMS LTD
Form F-3ASR
September 12, 2007
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As filed with the Securities and Exchange Commission on September 12, 2007

Registration No. 333-

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

FORM F-3

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

NICE-SYSTEMS LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

Israel (State or other jurisdiction of incorporation or organization)	N/A (I.R.S. Employer Identification No.)

8 Hapnina Street
P.O. Box 690
Ra'anana 43107, Israel
972-9-775-3522

(Address and telephone number of Registrant's principal executive offices)

NICE Systems Inc.
301 Route 17 North
Rutherford, New Jersey 07070
Attention: David Ottensoser
(201) 964-2600

(Name, address and telephone number of agent for service)

with copies to:

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Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum offering price	Amount of Registration Fee
Ordinary Shares[(1)]	1,501,933	$ 36.01[(2)]	$ 54,084,607[(2)]	$ 1,660.40[(3)]

(1) Represented by American Depositary Shares (''ADSs''). Each ADS represents one Ordinary Share.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) of the Securities Act, based on the market value of the ADSs being registered, as established by the average of the high and low prices of the ADS as reported on The Nasdaq Global Select Market on September 6, 2007, which was $36.01.

(3) In accordance with Rule 457(p), the Registrant is offsetting $850 that has already been paid with respect to the $220,000,000 aggregate initial offering price of securities that were registered previously pursuant to Registration Statement No. 333-127883 filed with the Securities and Exchange Commission on August 26, 2005 and of which $7,250,000 remains unsold against the registration fee owed in connection with this Registration Statement.

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Prospectus

1,501,933 American Depositary Shares

Representing 1,501,933 ordinary shares

NICE-Systems Ltd.

This prospectus relates to the resale, from time to time, by the selling securityholders named in this prospectus of up to 1,501,933 American Depositary Shares, or ADSs, each representing one ordinary share, of NIS 1.00 par value per share. The ADSs are evidenced by American Depositary Receipts. The 1,501,933 shares were issued in September 2007 to the selling securityholders in connection with our acquisition of Actimize Ltd.

The selling securityholders may sell all or any portion of these ordinary shares in one or more transactions through (i) Nasdaq or other exchanges, in the over-the-counter market, in privately negotiated transactions or otherwise; (ii) directly to purchasers or through agents, brokers, dealers or underwriters; (iii) at market prices prevailing at the time of sale, at prices related to such prevailing market prices, or at negotiated prices; or (iv) any other means described in the section entitled ‘‘Plan of Distribution.’’

Our ADSs are quoted on The Nasdaq Global Select Market under the symbol ‘‘NICE.’’ Our ordinary shares are traded on the Tel Aviv Stock Exchange. The last reported sales price of our ADSs on The Nasdaq Global Select Market on September 10, 2007 was $36.33 per ADS and the last reported sales price for our ordinary shares on September 10, 2007 on the Tel Aviv Stock Exchange was NIS 148.80 per share (or $36.01).

Investing in our ADSs involves a high degree of risk. See ‘‘Risk factors’’ beginning on page 4 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated September 12, 2007

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You should rely only on the information contained or incorporated by reference in this prospectus. ‘‘Incorporated by reference’’ means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is current only as of the dates appearing on the respective covers of the documents incorporated by reference or in this prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is not an offer to sell these securities or our solicitation of your offer to buy the securities in any jurisdiction where that would not be permitted or legal. The delivery of this prospectus or any sales made hereunder after the date of this prospectus shall not create an implication that the information contained herein or that our affairs have not changed since the date hereof.

Unless we have indicated otherwise or the context otherwise requires, references in this prospectus to ‘‘NICE,’’ ‘‘the Company,’’ ‘‘we,’’ ‘‘us’’ and ‘‘our’’ refer to NICE-Systems Ltd., a company organized under the laws of the State of Israel, ar its wholly owned subsidiaries. For a list of our significant subsidiaries, please refer to page 45 of our annual report on Form 20-F, which is incorporated herein by reference.

In this prospectus, unless otherwise specified or unless the context otherwise requires, all references to ‘‘$’’ or ‘‘dollars’’ are to U.S. dollars and all references to ‘‘NIS’’ are to New Israeli Shekels.

All share and per share information in this prospectus has been adjusted to give retroactive effect to a two-for-one split of our ordinary shares. The split was effected by way of a 100% stock dividend, which had an ex-dividend date of May 31, 2006.

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Prospectus summary

This summary highlights information contained elsewhere or incorporated by reference in this prospectus. This is not intended to be a complete description of the matters covered in this prospectus and is subject to, and qualified in its entirety by, reference to the more detailed information and financial statements (including the notes thereto) included or incorporated by reference in this prospectus.

Our company

We are a leading provider of solutions that capture, manage and analyze unstructured multimedia content and transactional data enabling companies and public organizations to enhance business and operational performance,

address security threats and behave proactively. Unstructured multimedia content includes phone calls to contact centers, back offices and branches, video captured by closed circuit television cameras, radio communications between emergency services personnel, email and instant messaging. Our solutions include integrated, scalable, multimedia recording platforms, software applications and related professional services. These solutions address critical business processes and risk management, compliance procedures and security needs of companies and public organizations. Our solutions facilitate faster decision-making and near real-time action, improving business and employee performance, and enhancing security and public safety. Our customers use our systems in a variety of enterprises, such as financial services, health care, outsourcers, retail, service providers, telecommunications and utilities. Our security solutions are primarily focused on homeland security and first responder organizations, transportation organizations, government-related organizations and the private sector. Our solutions are deployed at over 24,000 customers, including over 85 of the Fortune 100 companies.

Recent developments

Actimize Acquisition

On August 30, 2007, we acquired Actimize Ltd. Under the terms of the Agreement and Plan of Merger, dated July 2, 2007 (the ‘‘Merger Agreement’’), the consideration paid for Actimize was approximately $280 million, approximately 80% of which was in cash and approximately 20% of which was satisfied through the issuance of 1,501,933 of our ordinary shares. The registration statement of which this prospectus is a part is being filed in order to register for resale the ADSs issued in that transaction. On August 29, 2007, we entered into an unsecured loan agreement and letter of undertaking with Bank Hapoalim B.M. to finance $120 million of the cash consideration. The loan bears interest at the annual rate of LIBOR plus 0.45% and matures on February 29, 2008. For more information regarding the loan agreement, see the summary thereof attached as Exhibit 10.2 to the registration statement of which this prospectus is a part.

Actimize is a global provider of operational risk management software solutions that enable financial services institutions to manage the challenges of regulatory compliance, internal policy enforcement and preventing fraud and money laundering. Actimize’s software solutions allow financial services institutions to detect and mitigate these operational risks, thereby minimizing reputational harm, regulatory sanctions and financial losses. Actimize’s technology platform performs real-time analysis of transactions and interactions from multiple channels such as contact centers, the web and backend systems.

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Actimize’s solutions are based on a scalable, proprietary software platform and flexible applications that address hundreds of compliance, fraud and money-laundering scenarios across an enterprise. The solutions monitor and analyze high volumes of complex data on a real-time basis to enable clients to detect anomalous transactions, generate alerts and facilitate corrective action. Actimize currently offers packaged solutions in the following principal areas:

- Securities trading and broker supervision. Addresses compliance and policy enforcement for both institutional and retail equity trading, fixed income and derivatives trading, brokerage control room surveillance and broker sales practices.
- Fraud prevention. Enables fraud detection and mitigation by analyzing transactional activity to identify suspicious patterns and other indicators of fraudulent behavior, such as online and cross channel fraud,

check and ATM/debit fraud, insider fraud and account takeover fraud.

- Anti-money laundering (AML). Enables transaction monitoring, suspicious activity reporting, government watch-list screening and customer due diligence.

In addition to the packaged solutions, Actimize provides configuration and development tools that allow clients to rapidly develop customized solutions on the software platform.

For additional information on the Actimize acquisition, please see ‘‘Where you can find more information’’ beginning on page 31 of this prospectus.

David Kostman’s Resignation from the Board

On June 18, 2007, David Kostman resigned from our board of directors. Our board of directors now consists of seven directors, all of whom satisfy the independence requirements of the Nasdaq.

Formatest Dispute

On March 9, 2007, Formatest AG filed a claim against NICE Switzerland AG, a wholly owned subsidiary of ours, in the Cantonal Court of Zug, Switzerland. The claim is in the amount of EUR 1,187,793 (plus interest at 5% per annum) and was made in connection with an agreement dated December 10, 2004 between FAST Video Security AG (now NICE Switzerland AG) and Formatest AG. On June 19, 2007, NICE and Formatest AG entered into an agreement settling all claims, pursuant to which we paid EUR 831,600 plus legal and other costs and expenses. We believe we are entitled to recover all or a substantial part of the settlement amount paid to Formatest AG (with the addition of legal costs), under the terms of an indemnification provision contained in the sale and purchase agreement between the sellers and NICE dated November 16, 2006, relating to the acquisition of the shares in FAST Video Security AG. NICE has issued a set-off letter to the sellers dated July 11, 2007, for full indemnity of the settlement amount. However, the sellers contest any such liability to pay the indemnification amount. NICE and the sellers are discussing a potential settlement. However, no assurance can be made that such settlement will be reached.

Corporate information

Our principal executive offices are located at 8 Hapnina Street, P.O. Box 690, 43107 Ra’anana, Israel, where our telephone number is +972-9-775-3522 and our facsimile number is +972-9-775-3520. Our U.S. headquarters is located at 301 Route 17 North, 10th Floor, Rutherford, New Jersey 07070, where our telephone number is +1-201-964-2600 and our facsimile number is +1-201-964-2610.

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The offering

ADSs offered by the selling securityholders:	1,501,933 ADSs
Ordinary shares outstanding after this offering:	53,842,994 ordinary shares
Ordinary shares per ADS:	One ordinary share per ADS
Use of proceeds:	

	We will not receive any proceeds from the sale of ADSs by the selling securityholders.
Nasdaq symbol:	NICE
Risk factors:	See ‘‘Risk factors’’ beginning on page 4 of this prospectus.

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Risk Factors

Before you invest in our securities, you should carefully consider the risks involved. Accordingly, you should carefully consider the following factors, as well as the other information contained in this prospectus and in the documents incorporated by reference herein.

General business risks relating to our business portfolio and structure

The markets in which we operate are characterized by rapid technological changes and frequent new products and service introductions. We may not be able to keep up with these rapid technological and other changes.

We operate in several markets, each characterized by rapidly changing technology, new product introductions and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render existing products obsolete and unmarketable and can exert price pressures on existing products. We anticipate that a number of existing and potential competitors will be introducing new and enhanced products that could adversely affect the competitive position of our products. Our most significant market is the market for voice recording platforms and related enhanced applications (or Voice Platforms and Applications). Voice Platforms and Applications are utilized by entities operating in the contact center, trading floor, public safety and air traffic control segments to capture, store, retrieve and analyze recorded data. The market for our Voice Platforms and Applications is, in particular, characterized by a group of highly competitive vendors that are introducing rapidly changing competitive offerings around evolving industry standards.

Our ability to anticipate changes in technology and industry standards and to successfully develop and introduce new, enhanced and competitive products, on a timely basis, in all the markets in which we operate, will be a critical factor in our ability to grow and be competitive. As a result, we expect to continue to make significant expenditures on research and development, particularly with respect to new software applications, which are continuously required in all our business areas. The convergence of voice and data networks and wired and wireless communications could require substantial modification and customization of our current multi-dimensional products and business models, as well as the introduction of new multi-dimensional products. Further, customer acceptance of these new technologies may be slower than we anticipate. We cannot assure you that the market or demand for our products will grow as rapidly as we expect, if at all, that we will successfully develop new products or introduce new applications for existing products, that such new products and applications will achieve market acceptance or that the introduction of new products or technological developments by others will not render our products obsolete. In addition, our products must readily integrate with major third party security, telephone, front-office and back-office systems. Any changes to these third party systems could require us to redesign our products, and any such redesign might not be possible on a timely basis or achieve market acceptance. Our inability to develop products that are competitive in technology and price and responsive to customer needs could have a material adverse effect on our business, financial condition and results of operations. Additional factors that could have a material adverse effect on our business, financial condition and results of operations include industry specific factors; our ability to continuously develop, introduce and deliver

commercially viable products, solutions and technologies; the market's rate of acceptance of the product solutions and technologies we offer; and our ability to keep pace with market and technology changes and to compete successfully.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments, including our recent acquisition of Actimize. In particular, we may not succeed in making additional acquisitions or be effective in integrating such acquisitions.

As part of our growth strategy, we have made a number of acquisitions and expect to continue to make acquisitions. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. The process of integrating an

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acquired company's business into our operations, including the business of Actimize, and/or of investing in new technologies, may result in unforeseen operating difficulties and large expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. Other risks commonly encountered with acquisitions include the effect of the acquisition on our financial and strategic position and reputation, the failure of the acquired business to further our strategies, the inability to successfully integrate or commercialize acquired technologies or otherwise realize anticipated synergies or economies of scale on a timely basis, and the potential impairment of acquired assets. Moreover, there can be no assurance that the anticipated benefits of any acquisition or investment will be realized. Future acquisitions or investments could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expenses related to intangible assets, any of which could have a material adverse effect on our operating results and financial condition. There can be no assurance that we will be successful in making additional acquisitions or effective in integrating such acquisitions into our existing business. In addition, if we consummate one or more significant acquisitions in which the consideration consists, in whole or in part, of ordinary shares or American Depositary Shares (ADSs), representing our ordinary shares, shareholders would suffer dilution of their interests in us. We have also invested in companies which can still be considered in the start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies.

We have expanded into new markets and may not be able to manage our expansion and anticipated growth effectively.

We have established a sales management and service infrastructure in India by recruiting sales, management and service personnel in order to bring about further growth in revenue in the Asia Pacific market and have expanded our professional services group to include business consultants. Also, since 2002 we have been expanding our presence in Europe (mainly in the United Kingdom) and in the Middle East and Africa (the EMEA region) through organic growth and through our acquisition of Thales Contact Solutions (or TCS) and FAST Video Security. We may establish additional operations within these regions or in other regions where growth opportunities are projected to warrant the investment. However, we cannot assure you that our revenues will increase as a result of this expansion or that we will be able to recover the expenses we incurred in effecting the expansion. Our failure to effectively manage our expansion of our sales, marketing, service and support organizations could have a negative impact on our business. To accommodate our global expansion, we are continuously implementing new or expanded business systems, procedures and controls. There can be no assurance that the implementation of such systems, procedures, controls and other internal systems can be completed successfully.

Our evolving business strategy could adversely affect our business.

Historically we have supplied the hardware and some software for implementing multimedia recording solutions. Our shift towards providing value-added services and an enterprise software business model has required and will continue to require substantial change, potentially resulting in some disruption to our business. These changes may include changes in management, sales force and technical personnel; expanded or differing competition resulting from entering the enterprise software market; increased need to expand our distribution network to include system integrators which could impact revenues and gross margins; and, as our applications are sold either to our installed base or to new customers together with our recording platforms, the rate of adoption of our software applications by the market.

The changes in our business may place a significant strain on our operational and financial resources. We may experience substantial disruption from changes and could incur significant expenses and write-offs. Failing to carefully manage expense and inventory levels consistent with product demand and to carefully manage accounts receivable to limit credit risk, could materially adversely affect our results of operations.

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We depend upon outsourcers for the manufacture of our key products. The failure of our product manufacturers to meet our quality or delivery requirements would likely have a material adverse effect on our business, results of operations and financial condition.

In 2002, we entered into a manufacturing agreement with Flextronics Israel Ltd., a subsidiary of Flextronics, a global electronics manufacturing services company. Under this agreement, Flextronics provides us with a comprehensive manufacturing solution that covers all aspects of the manufacture of our products from order receipt to product shipment, including purchasing, manufacturing, testing, configuration, and delivery services. This agreement covers all of our products. In connection with the acquisition of Dictaphone Corporation’s Communications Recordings Systems division (or CRS), we also have a manufacturing agreement with Bulova Technologies EMS LLC (Bulova), pursuant to which Bulova manufactures all ex-CRS products. As a result of these arrangements, we are now fully dependent on Flextronics and Bulova to process orders and manufacture our products. Consequently, the manufacturing process of our products is not in our direct control.

We may from time to time experience delivery delays due to the inability of Flextronics and Bulova to consistently meet our quality or delivery requirements and we may experience production interruptions if any of Flextronics or Bulova is for any reason unable to continue the production of our products. Should we have on-going performance issues with our contract manufacturers, the process to move from one contractor to another is a lengthy and costly process that could affect our ability to execute customer shipment requirements and/or might negatively affect revenue and/or costs. If these manufacturers or any other manufacturer were to cancel contracts or commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on our business, results of operations and financial condition.

Undetected problems in our products could directly impair our financial results.

If flaws in the design, production, assembly or testing of our products (by us or our suppliers) were to occur, we could experience a rate of failure in our products that would result in substantial repair, replacement or service costs and

potential liability and damage to our reputation. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

Incorrect or improper use of our products or failure to properly provide training, consulting and implementation services could result in negative publicity and legal liability.

Our products, especially our Actimize solutions, are complex and are deployed in a wide variety of network environments. The proper use of our software requires extensive training and, if our software products are not used correctly or as intended, inaccurate results may be produced. Our products may also be intentionally misused or abused by clients who use our products. The incorrect or improper use of our products or our failure to properly provide training, consulting and implementation services to our clients may result in losses suffered by our clients, which could result in negative publicity and product liability or other legal claims against us.

If we lose our key suppliers, our business may suffer.

Certain components and subassemblies that are used in the manufacture of our existing products are purchased from a single or a limited number of suppliers. In the event that any of these suppliers are unable to meet our requirements in a timely manner, we may experience an interruption in production until an alternative source of supply can be obtained. Any disruption, or any other interruption of a supplier's ability to provide components to us, could result in

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delays in making product shipments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, some of our major suppliers use proprietary technology and software code that could require significant redesign of our products in the case of a change in vendor. Further, as suppliers discontinue their products, or modify them in manners incompatible with our current use, or use manufacturing processes and tools that could not be easily migrated to other vendors, we could have significant delays in product availability, which would have a significant adverse impact on our results of operations and financial condition. Although we generally maintain an inventory for some of our components and subassemblies to limit the potential for an interruption and we believe that we can obtain alternative sources of supply in the event our suppliers are unable to meet our requirements in a timely manner, we cannot assure you that our inventory and alternative sources of supply would be sufficient to avoid a material interruption or delay in production and in availability of spare parts.

We rely on software from third parties. If we lose the right to use that software, we would have to spend additional capital to redesign our existing software or develop new software.

We integrate various third party software products as components of our products. We utilize third party software products to enhance the functionality of our products. Our business could be disrupted if functional versions of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required to spend additional capital to either redesign our software to function with alternate third party software or develop these components ourselves. We might as a result be forced to limit the features available in our current or future product offerings and the commercial release of our products could be delayed.

The European Union has issued directives relating to the sale in member countries of electrical and electronic equipment, including products sold by us. If our products fail to comply with these directives, we could be subject to penalties and sanctions that could materially adversely affect our business.

A directive issued by the European Union on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or ‘‘RoHS,’’ came into effect on July 1, 2006. The RoHS directive lists a number of substances including, among others, lead, mercury, cadmium and hexavalent chromium, which must either be removed or reduced to within maximum permitted concentrations in any products containing electrical or electronic components that are sold within the European Union. Our products meet the requirements of the RoHS directive and we are making every effort in order to maintain compliance, without otherwise adversely affecting the quality and functionalities of our products.

We, like other manufacturers, are dependent on our suppliers for certain components and sub-system modules to comply with these requirements, and we may be required to pay higher prices for components that comply with this directive. In addition, compliance with the RoHS directive may require us to undertake significant expenses with respect to the re-design of our products. We may not be able to pass these higher component costs or redesign costs on to our customers. We cannot be sure that we will be able to comply with these regulations on a cost effective basis or that a sufficient supply of compliant components will be available to us. Our inability or failure to comply with these regulations, including by reason of failure by our suppliers to comply with the directive, may restrict us for a period of time from conducting certain business in the European Union and could have a material adverse effect on our results of operations.

A further directive on Waste Electrical and Electronic Equipment, or ‘‘WEEE,’’ approved by the European Union in 2003, promotes waste recovery with a view to reducing the quantity of waste for disposal and saving natural resources, in particular by reuse, recycling and recovery of waste electrical and electronic equipment. The WEEE directive covers all electrical and electronic equipment used by consumers and electronic equipment intended for professional use. The directive, which partly came into effect in August 2005, requires that all new electrical and

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electronic equipment put on the Community market be appropriately labeled regarding waste disposal and contains other obligations regarding the collection and recycling of waste electrical and electronic equipment. Our products fall within the scope of the WEEE directive, and we have set up the operational and financial infrastructure required for collection and recycling of WEEE, as stipulated in the WEEE directive, including product labeling, registration and the joining of compliance schemes. We are taking and will continue to take all requisite steps to ensure compliance with this directive. If we fail to maintain compliance, we may be restricted from conducting certain business in the European Union, which could adversely affect our results of operations.

The countries of the European Union, as a single market for our products, accounted in the six months ended June 30, 2007 for approximately 22% of our revenues. If our products fail to comply with WEEE or RoHS directives or any other directive issued from time to time by the European Union, we could be subject to penalties and other sanctions that could have a material adverse affect on our results of operations and financial condition.

If we lose a major customer or support contract, our results of operations may suffer.

We derive a significant portion of our revenues from services, which include maintenance, project management, support and training. As a result, if we lose a major customer or if a support contract is delayed or cancelled, our revenues would be adversely affected. In addition, customers who have accounted for significant service revenues in the past may not generate revenues in future periods. Our failure to obtain new customers or additional orders from existing customers could also materially affect our results of operations.

Risks associated with our distribution channels and key strategic partners may materially adversely affect our financial results.

We have agreements in place with many distributors, dealers and resellers to market and sell our products and services in addition to our direct sales force. We derive a significant percentage of our revenues from one of our distributor channels and new channels may, in the future, account for a significant percentage of our revenues. Our top distribution channel accounted for approximately 19%, 21%, 16% and 13% of our revenues in 2004, 2005, 2006 and in the six months ended June 30, 2007, respectively. Our financial results could be materially adversely affected if our contracts with distribution channels or our other partners were terminated, if our relationship with our distribution channels or our other partners were to deteriorate or if the financial condition of our distribution channels or our other partners were to weaken. Additionally, our competitors' ability to penetrate our strategic relationships, particularly our relationship with Avaya, our largest global distribution channel and one of the leading global providers of enterprise business communication platforms in voice, e-business and data, may result in a significant reduction of sales through that channel. Moreover, our current distribution channels or other partners may decide to enter into our markets in competition with us, which will likely result in the termination of our relationship and may lead to a significant reduction in sales through related channels.

As our market opportunities change, our reliance on particular distribution channels or other partners may increase, which may negatively impact gross margins. There can be no assurance that we will be successful in maintaining or expanding these channels. If we are not successful, we may lose sales opportunities, customers and market share. In addition, some of our distribution channels or our other partners are suppliers of telecommunication infrastructure equipment. Some of our distribution channels or our other partners have developed and marketed IP-based products, software applications and storage products and services in competition with us and there can be no assurance that our distribution channels or our other partners will not further develop or market such products and services in the future.

Our uneven sales patterns could significantly impact our quarterly revenues and earnings.

The sales cycle for our products and services is variable, typically ranging between a few weeks to several months from initial contact with the potential client to the signing of a contract.

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Frequently, sales orders accumulate towards the latter part of a given quarter. Looking forward, given the lead-time required by our contract manufacturer, if a large portion of sales orders are received late in the quarter, we may not be able to deliver products within the quarter and thus such sales will be deferred to a future quarter. There can be no assurance that such deferrals will result in sales in the near term, or at all. Thus, delays in executing client orders may affect our revenue and cause our operating results to vary widely. Additionally, as a high percentage of our expenses, particularly employee compensation, is relatively fixed, a variation in the level of sales, especially at or near the end of any quarter, may have a material adverse impact on our quarterly operating results.

It is also difficult to predict the exact mix of products for any period between hardware, software and services as well as within the product category between audio platforms and related applications and digital video. As each of our product types and services have different gross margins, changes in the mix of products sold in a period will have an impact, and perhaps a material impact, on our gross profit and net income in that period.

In addition, recognition of revenues from software license fees may be deferred, especially when we license customized solutions or where the provision of services is integral to the functionality of the software, in which case we may be required to recognize the license fees over the term of the provision of the services based on our estimate of the percentage of the project's completion. These factors and others can also influence the length of our sales cycle, as we may have to negotiate very precise terms for the licensing of our software solutions, and we may accept terms and conditions that do not permit revenue recognition at the time of delivery.

If we lose our key personnel or cannot recruit additional personnel, our business may suffer.

If our growth continues, we will be required to hire and integrate new employees. Recruiting and retaining qualified engineers and computer programmers to perform research and development and to commercialize our products, as well as qualified personnel to market and sell those products, are critical to our success. As of June 30, 2007, approximately 24% of our employees were devoted to research and product development and approximately 18% were devoted to marketing and sales. There can be no assurance that we will be able to successfully recruit and integrate new employees. There is often intense competition to recruit highly skilled employees in the technology industry. We may also experience personnel changes as a result of our move from multimedia recording equipment towards business performance solutions. An inability to attract and retain highly qualified employees may have an adverse effect on our ability to develop new products and enhancements for existing products and to successfully market such products, all of which would likely have a material adverse effect on our results of operations and financial position. Our success also depends, to a significant extent, upon the continued service of a number of key management, sales, marketing and development employees, the loss of any of whom could materially adversely affect our business, financial condition and results of operations.

Operating internationally exposes us to additional and unpredictable risks.

We sell our products throughout the world and intend to continue to increase our penetration of international markets. In 2003, 2004, 2005, 2006 and the six months ended June 30, 2007, approximately 99% of our total sales were derived from sales to customers outside of Israel, and approximately 50%, 44%, 53%, 54% and 53%, respectively, of our total sales were made to customers in North America. A number of risks are inherent in international transactions. Our future results could be materially adversely affected by a variety of factors including changes in exchange rates, general economic conditions, regulatory requirements, tax structures or changes in tax laws, and longer payment cycles in the countries in our geographic areas of operations. International sales and operations may be limited or disrupted by the imposition of governmental controls and regulations, export license requirements, political instability, trade restrictions, changes in tariffs and difficulties in managing international operations. We cannot

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assure you that one or more of these factors will not have a material adverse effect on our international operations and, consequently, on our business, financial condition and results of operations.

Inadequate intellectual property protections could prevent us from enforcing or defending our intellectual property and we may be subject to liability in the event our products infringe on the proprietary rights of third parties and we are not successful in defending such claims.

Our success is dependent, to a significant extent, upon our proprietary technology. We currently hold 46 U.S. patents and 53 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 148 patent applications pending in the United States and other countries. We rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure and non-competition agreements, as well as third party licenses to establish and protect the technology used in our systems. However, we cannot assure you that such measures will be adequate to protect our proprietary technology, that competitors will not develop products with features based upon, or otherwise similar to our systems, or that third party licenses will be available to us or that we will prevail in any proceeding instituted by us in order to enjoin competitors from selling similar products.

We generally distribute our software products under software license agreements that restrict the use of our products by terms and conditions prohibiting unauthorized reproduction or transfer of the software products. However, effective copyrights and other intellectual property rights protection may be inadequate or unavailable to us in every country in which our software products are available, and the laws of some foreign countries may not be as protective of intellectual property rights as those in Israel and the United States.

Although we believe that our products do not infringe upon the proprietary rights of third parties, we cannot assure you that one or more third parties will not make a contrary claim or that we will be successful in defending such claim.

From time to time, we receive ‘‘cease and desist’’ letters alleging patent infringements. No formal claims or other actions have been filed with respect to such alleged infringements, except for claims filed by Dictaphone (which have since been settled and dismissed) and Verint America Inc. (formerly Witness Systems, Inc.) (see Item 8, ‘‘Financial Information—Legal Proceedings’’ in our annual report on Form 20-F, which is incorporated herein by reference, and ‘‘Recent developments’’ beginning on page 1 of this prospectus). We believe that none of these allegations has merit. We cannot assure you, however, that we will be successful in defending against the claims that have been asserted or any other claims that may be asserted. We also cannot assure you that such claims will not have a material adverse effect on our business, financial condition, or operations. Defending infringement claims or other claims could involve substantial costs and diversion of management resources.

In addition, to the extent we are not successful in defending such claims, we may be subject to injunctions with respect to the use or sale of certain of our products or to liabilities for damages and may be required to obtain licenses which may not be available on reasonable terms, any of which may have a material adverse impact on our business or financial condition.

We use certain ‘‘open source’’ software tools that may be subject to intellectual property infringement claims, the assertion of which could impair our product development plans, interfere with our ability to support our clients or require us to pay licensing fees.

Certain of our software products contain a limited amount of open source code and we may use more open source code in the future. Open source code is code that is covered by a license agreement that permits the user to liberally use, copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code.

As a result of our use of open source software, we could be subject to suits by parties claiming ownership of what we believe to be open source code and we may incur expenses in defending

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claims that we did not abide by the open source code license. If we are not successful in defending against such claims, we may be subject to monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

In addition, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying interpretations. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products may be available to others without charge. If this happens, our customers and our competitors may have access to our products without cost to them, which could harm our business.

We monitor our use of such open source code to avoid subjecting our products to conditions we do not intend. The use of such open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

We face potential product liability claims against us.

Our products focus specifically on organizations' business-critical operations. We may be subject to claims that our products are defective or that some function or malfunction of our products caused or contributed to property, bodily or consequential damages. We attempt to minimize this risk by incorporating provisions into our distribution and standard sales agreements that are designed to limit our exposure to potential claims of liability. No assurance can be given that all claims will be barred by the contractual provisions limiting liability or that the provisions will be enforceable. We carry product liability insurance in the amount of $25,000,000 per occurrence and $25,000,000 overall per annum. No assurance can be given that the amount of any individual claim or all claims will be covered by the insurance or that the amount of any individual claim or all claims in the aggregate will not exceed insurance policy coverage limits. A significant liability claim against us could have a material adverse effect on our results of operations and financial position.

If our advanced compliance recording solutions fail to record our customers' interactions, we may be subject to liability and our reputation may be harmed.

Many of our customers use our solutions to record and to store recordings of commercial interactions. These recordings are used to provide back-up and verification of transactions and to guard against risks posed by lost or misinterpreted voice communications. These customers rely on our solutions to record, store and retrieve voice data in a timely, reliable and efficient manner. If our solutions fail to record our customers' interactions or our customers are unable to retrieve stored recordings when necessary, we may be subject to liability and our reputation may be harmed. Although we attempt to limit any potential exposure through quality assurance programs, insurance and contractual terms, we cannot assure you that we will eliminate or successfully limit our liability for any failure of our recording and storage solutions.

We face risks relating to government contracts.

We sell our products to, among other customers, governments and governmental entities. These sales are subject to special risks, such as delays in funding, termination of contracts or sub-contracts at the convenience of the

government, termination, reduction or modification of contracts or sub-contracts in the event of changes in the government's policies or as a result of budgetary constraints, and increased or unexpected costs resulting in losses or reduced profits under fixed price contracts. Such occurrences have happened in the past and we cannot assure you that we will not experience problems in the future in our performance of such government contracts.

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The markets in which we operate are highly competitive and we may be unable to compete successfully.

The market for our products and related services, in general, is highly competitive. Additionally, some of our principal competitors, such as Verint Systems, Inc., may have significantly greater resources and larger customer bases than do we. We have seen evidence of deep price reductions by our competitors and expect to continue to see such behavior in the future, which, if we are required to match such discounting, will adversely affect our gross margins and results of operations. To date, we have been able to manage our product design and component costs. However, there can be no assurance that we will be able to continue to achieve reductions in component and product design costs. Further, the relative and varying rates of increases or decreases in product price and cost could have a material adverse impact on our earnings.

We are expanding the scope of our Voice Platforms and Applications to Enterprise Performance Management solutions, with a focus on analytic software solutions that are based on voice and data content analysis. The market for such content analysis applications is still in its early phases. Successful positioning of our products is a critical factor in our ability to maintain growth. Furthermore, new potential entrants from the traditional enterprise business intelligence and business analytics sector may decide to develop recording and content analysis capabilities and compete with us in this emerging opportunity. As a result, we expect to continue to make significant expenditures on marketing. We cannot ensure that the market awareness or demand for our new products will grow as rapidly as we expect, or if at all, that we will successfully develop new products or introduce new applications for existing products, that such new products and applications will achieve market acceptance or that the introduction of new products or technological developments by others will not adversely impact the demand for our products.

With respect to the market for digital video products and applications (or Video Platforms and Applications), our Video Platforms and Applications are utilized by entities in the closed circuit television, or CCTV, security, gaming and retail industries to capture, store and analyze digital video and related data. The market for our Video Platforms and Applications is highly competitive and includes products offering a broad range of features and capacities. We compete with a number of large, established manufacturers of video recording systems and distributors of similar products, as well as new emerging competitors. The price per channel of digital recording systems has decreased throughout the market in recent years, primarily due to competitive pressures. We cannot assure you that the price per channel of digital recording systems will not continue to decrease or that our gross profit will not decrease as a result. Moreover, our penetration into this market may not experience the same growth rate as the entire company's growth rate, which might have a material adverse effect on our earnings.

With respect to the public safety part of our business, our ability to succeed depends on our ability to develop an effective network of distributors to the mid-low segment of the public safety market, while facing pricing pressures and low barriers to entry. We face significant competition from other well-established competitors, including CVDS Inc., VoicePrint Inc. and others. Prices have decreased throughout the market in recent years, primarily due to competitive pressures. We cannot assure you that prices will not continue to decrease or that our gross profit will not decrease as a result. We believe that our ability to sell and distribute our Voice Platforms and Applications in the

public safety market depends on the success of our marketing, distribution and product development initiatives. We cannot assure you that we will be successful in these initiatives.

The Voice-over-Internet-Protocol contact center and trading market is highly competitive and we may be unable to compete successfully. The recent expansion of Voice-over-Internet-Protocol (or VoIP) into contact centers and trading floors may allow one or more of our competitors to take a leadership position with respect to this new technology. Strategic partners may change their vendor preference as a result or may develop embedded VoIP recording as part of the VoIP switch or networking infrastructure. Successful marketing of our products and services to our customers

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and partners will be critical to our ability to maintain growth. We cannot assure you that our products or existing partnerships will permit us to compete successfully.

The operational risk management market has emerged only in recent years and is highly competitive and fragmented. Our software solutions in this field compete with software developed internally by potential clients as well as software and other solutions offered by competitors.

Adverse conditions in the information technology sector may lead to a decreased demand for our voice platforms and applications and may harm our business, financial condition and results of operations.

We are subject to the effects of general global, economic and market conditions. Our operating results may be materially adversely affected as a result of unfavorable economic conditions and reduced information technology spending, particularly in the product segments in which we compete. In particular, many enterprises, telecommunications carriers and service providers may reduce spending in connection with contact centers, and many financial institutions may reduce spending related to trading floors and operational risk management. Budgets for IT-related capital expenditures at financial services and other institutions are typically cyclical in nature, with generally higher budgets in times of improving economic conditions and lower budgets in times of economic slowdowns. In addition, even at times when budgets for technology-related capital expenditures are relatively high, our clients may, due to imminent regulatory or operational deadlines or objectives or for other reasons, prioritize other expenditures over the operational risk management solutions that we offer.

Customer purchase decisions may be significantly affected by a variety of factors, including trends in spending for information technology and enterprise software, market competition, capital expenditure prioritization, budgeting and the viability or announcement of alternative technologies. Furthermore, even when information technology is a priority, prospective customers that made significant investments in internally developed solutions or in point solutions would incur significant costs in switching to third-party enterprise-wide products such as ours. If these industry-wide conditions exist, they may have a material adverse impact on our business, financial condition and results of operations.

We depend on the success of the NiceLog system and related products.

The NiceLog system, our digital voice recording system, is a computer telephony integrated multi-channel voice recording and retrieval system. We are dependent on the success of the NiceLog system and related products to maintain profitability. In 2004, 2005, 2006 and the six months ended June 30, 2007, approximately 78%, 78%, 63% and 63%, respectively, of our revenues were generated from sales of NiceLog systems and related products and we

anticipate that such products will continue to account for a significant portion of our sales in the next several years. A significant decline in sales of NiceLog systems and related products, or a significant decrease in the profit margin on such products, could have a material adverse effect on our business, financial condition or results of operations.

We may be unable to develop strategic alliances and marketing partnerships for the global distribution of our video platforms and applications, which may limit our ability to successfully market and sell these products.

We believe that developing marketing partnerships and strategic alliances is an important factor in our success in marketing our video platforms and applications and in penetrating new markets for such products. However, unlike our voice platforms and applications, we have only recently started to develop a number of strategic alliances for the marketing and distribution of our video platforms and applications. We cannot assure you that we will be able to develop such partnerships or strategic alliances on terms that are favorable to us, if at all. Failure to develop such arrangements that are satisfactory to us may limit our ability to successfully market and sell our video platforms and applications and may have a negative impact on our business and results of operations.

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We may be unable to commercialize new video content analysis applications.

We are currently in the process of developing and commercializing new video content analysis applications that will enable real-time detection of security threats. The market for such video content analysis applications is still in an early phase. In addition, because this is a new opportunity for changing security procedures and represents a transition to proactive security management, we are not able to predict the pace at which security organizations will adopt this technology, if at all. Successful positioning of our products is a critical factor in our ability to maintain growth. New potential entrants to the market may decide to develop video content analysis capabilities and compete with us in this emerging opportunity. As a result, we expect to continue to make significant expenditures on marketing. We cannot assure you that a market for these products will develop as rapidly as we expect or at all, that we will successfully develop new products or introduce new applications for existing products, that new products or applications will meet market expectations and needs, that we will be successful in penetrating these markets and in marketing our products or that the introduction of new products or technological developments by others will not adversely impact the demand for our video content analysis applications.

If the pace of spending by the U.S. Department of Homeland Security is slower than anticipated, our security business will likely be adversely affected, perhaps materially.

The market for our security solutions in CCTV continuous recording, public safety and law enforcement is highly dependent on the spending cycle and spending scope of the U.S. Department of Homeland Security, as well as local, state and municipal governments and security organizations in international markets. We cannot be sure that the spending cycle will materialize as we expect and that we will be positioned to benefit from the potential opportunities.

If we are unable to maintain the security of our systems, our business, financial condition and operating results could be harmed.

The occurrence, or perception of occurrence, of security breaches in the operation of our business or by third parties using our products could harm our business, financial condition and operating results. Some of our customers use our products to compile and analyze highly sensitive or confidential information. We may come into contact with such

information or data when we perform service or maintenance functions for our customers. While we have internal policies and procedures for employees in connection with performing these functions, the perception or fact that any of our employees has improperly handled sensitive information of a customer or a customer's customer could negatively impact our business. If, in handling this information we fail to comply with our privacy policies or privacy and security laws, we could incur civil liability to government agencies, customers and individuals whose privacy was compromised. If personal information is received or used from sources outside the U.S., we could be subject to civil, administrative or criminal liability under the laws of other countries. In addition, third parties may attempt to breach our security or inappropriately use our products through computer viruses, electronic break-ins and other disruptions. If successful, confidential information, including passwords, financial information, or other personal information may be improperly obtained and we may be subject to lawsuits and other liability. Any internal or external security breaches could harm our reputation and even the perception of security risks, whether or not valid, could inhibit market acceptance of our products.

Our business could be materially adversely affected by changes in the legal and regulatory environment.

Our business, results of operations and financial condition could be materially adversely affected if laws, regulations or standards relating to our products or us are newly implemented or changed. In addition, our revenues would be harmed if we fail to adapt our products to changes in regulations applicable to the business of certain our clients, such as securities trading, broker sales compliance and anti-money laundering laws and regulations.

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If we fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, it could have a material adverse effect on our business, operating results and stock price.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us. Our efforts to comply with the requirements of Section 404, which applied to our financial statements for 2006, have resulted in increased general and administrative expenses and a devotion of management time and attention to compliance activities, and we expect these efforts to require the continued commitment of significant resources. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. In addition, we may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation and/or sanctions by regulatory authorities, and could have a material adverse effect on our business and operating results, investor confidence in our reported financial information, and the market price of our common stock.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income taxes both in Israel and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable laws in the jurisdictions in which we file. From time to time, we are subject to income tax audits. While we believe we comply with applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed additional taxes, there could be a material adverse affect on our results of operations and financial condition.

Risks relating to Israel

Our business may be impacted by inflation and NIS exchange rate fluctuations.

Exchange rate fluctuations between the U.S. dollar and the NIS may negatively affect our earnings. A substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars. However, a significant portion of the expenses associated with our Israeli operations, including personnel and facilities related expenses, are incurred in NIS. Consequently, inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the U.S. dollar. In addition, if the value of the U.S. dollar decreases against the NIS, our earnings may be negatively impacted. In 2006, the U.S. dollar depreciated against the NIS by 8.2% while inflation decreased by only 0.1%. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the U.S. dollar or of the U.S. dollar against the NIS. If the U.S. dollar cost of our operations in Israel increases and if the current trend of depreciation of the U.S. dollar against the NIS continues, our dollar-measured results of operations will be adversely affected. In addition, exchange rate fluctuations in currency exchange rates in countries other than Israel where we operate and do business may also negatively affect our earnings.

We are subject to the political, economic and military conditions in Israel.

Our headquarters, research and development and main manufacturing facilities, as well as the facilities of Flextronics Israel Ltd., our key manufacturer, are located in the State of Israel, and we are directly affected by the political, economic and military conditions to which Israel is subject. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken

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place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians. Hamas, an Islamist movement responsible for many attacks, including missile strikes, against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip by force in June 2007. These developments have further strained relations between Israel and the Palestinian Authority. Further, in the summer of 2006, Israel engaged in a war with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. Acts of terrorism, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East. Furthermore, several countries restrict doing business with Israel and Israeli companies, and additional companies may restrict doing business with Israel and Israeli companies as a result of an increase in hostilities. Our products are heavily dependent upon components imported from, and most of our sales are made to, countries outside of Israel. Accordingly, our operations could be materially adversely affected if trade between Israel and its present trading partners were interrupted or curtailed.

Some of our officers and employees are currently obligated to perform annual military reserve duty and some were called to duty during the summer of 2006. Additionally, in the event of a military conflict, including the ongoing conflict with the Palestinians, these persons could be required to serve in the military for extended periods of time. We cannot assess the full impact of these requirements on our workforce or business and we cannot predict the effect on

us of any expansion or reduction of these obligations.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers, most of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since the majority of our assets and most of our directors and officers are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States. Additionally, it may be difficult to enforce civil liabilities under U.S. federal securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

We depend on the availability of government grants and tax benefits. Our participation in these programs restricts our ability to freely transfer manufacturing rights and technology out of Israel.

We derive and expect to continue to derive significant benefits from various programs including Israeli tax benefits relating to our ‘‘Approved and Privileged Enterprise’’ programs and certain grants from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor, or OCS, for research and development. To be eligible for these grants, programs and tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets and conducting the research, development and manufacturing of products developed with such OCS grants in Israel (unless a special approval has been granted for performing manufacturing activities outside Israel). From time to time, the Israeli Government has discussed reducing or eliminating the availability of these grants, programs and benefits and there can be no assurance that the Israeli Government’s support of grants, programs and benefits will

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continue. If grants, programs and benefits available to us or the laws, rules and regulations under which they were granted are eliminated or their scope is further reduced, or if we fail to meet the conditions of existing grants, programs or benefits and are required to refund grants or tax benefits already received (together with interest and certain inflation adjustments) or fail to meet the criteria for future ‘‘Approved or Privileged Enterprises,’’ our business, financial condition and results of operations could be materially adversely affected including an increase in our provision for income taxes.

On April 1, 2005, an amendment to the Israeli law which deals with Approved Enterprises came into force. Pursuant to the amendment, a company’s facility will be granted the status of ‘‘Approved Enterprise’’ only if it is proven to be an industrial facility (as defined in such law) that contributes to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. The amendment incorporates certain changes to both the criteria and procedure for obtaining ‘‘Approved Enterprise’’ status for an investment program, and changes to the tax benefits afforded in certain circumstances to ‘‘Approved Enterprises’’ under such law (which is referred to as a Privileged Enterprise following such amendment). The amendment applies to Approved Enterprise programs in which the year of commencement of benefits under the law is 2004 or later, unless such programs received approval from the applicable government authority prior to December 31, 2004, in which case the provisions

of the amendment will not apply. We have one Privileged Enterprise program which is covered by the amendment. Whilst we believe that we meet the statutory conditions as set out in the amendment there can be no assurance that the tax authority in Israel will concur. Should this Privileged Enterprise program not be considered to meet the statutory conditions, our provision for income taxes will increase materially.

As a result of the amendment, tax-exempt income generated under the provisions of the amended law, will subject us to taxes upon dividend distribution or complete liquidation.

We do not intend to distribute any amounts of its undistributed tax exempt income as dividends as we intend to reinvest our tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to our Approved or Privileged Enterprise programs as the undistributed tax exempt income is essentially permanent in duration.

Under Israeli law, products incorporating know-how developed with grants from the OCS are required to be manufactured in Israel, unless prior approval of a governmental committee is obtained. As a condition to obtaining this approval, we may be required to pay to the OCS up to 300% of the grants we received and to repay these grants on an accelerated basis, depending on the portion of manufacturing performed outside Israel. In addition, we are prohibited from transferring to third parties the technology developed with these grants without the prior approval of a governmental committee and, possibly, the payment of a fee. See Item 4, ''Information on the Company—Research and Development'' in our annual report on Form 20-F, which is incorporated herein by reference, for additional information about OCS programs.

Provisions of Israeli law may delay, prevent or impede an acquisition of us, which could prevent a change of control.

Israeli corporate law regulates mergers and tender offers, requires tender offers for acquisitions of shares above specified thresholds and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. These provisions could delay, prevent or impede an acquisition of us. See Item 10, ''Additional Information—Mergers and Acquisitions'' in our annual report on Form 20-F, which is incorporated herein by reference, for additional discussion about some anti-takeover effects of Israeli law.

Risks related to our ordinary shares and ADSs

Our share price is volatile and may decline.

Numerous factors, some of which are beyond our control, may cause the market price of our ordinary shares or our ADSs, each of which represents one ordinary share, to fluctuate

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significantly. These factors include, among other things, announcements of technological innovations, development of or disputes concerning our intellectual property rights, customer orders or new products by us or our competitors, currency exchange rate fluctuations, earnings releases by us or our competitors, market conditions in the industry and the general state of the securities markets, with particular emphasis on the technology and Israeli sectors of the securities markets.

Our operating results in one or more future periods may fluctuate significantly and may cause our share price to be volatile.

The sales cycle for our products and services is variable, typically ranging between a few weeks to several months, and in some extreme cases it may take even longer, from initial contact with the potential client to the signing of a contract. Frequently, sales orders accumulate towards the latter part of a given quarter. Looking forward, given the lead time required by our contract manufacturer, if a large portion of sales orders are received late in the quarter, we may not be able to deliver products within the quarter and thus such sales will be deferred to a future quarter. There can be no assurance that such deferrals will result in sales in the near term, or at all. Thus, delays in executing client orders may affect our revenue and cause our operating results to vary widely. Additionally, as a high percentage of our expenses, particularly employee compensation, is relatively fixed, a variation in the level of sales, especially at or near the end of any quarter, may have a material adverse impact on our quarterly operating results.

In addition, our quarterly operating results may be subject to significant fluctuations due to other factors, including the timing and size of orders and shipments to customers, variations in distribution channels, mix of products, new product introductions, competitive pressures and general economic conditions. It is difficult to predict the exact mix of products for any period between hardware, software and services as well as within the product category between audio platforms and related applications, digital video and communications intelligence. Because a significant portion of our overhead consists of fixed costs, our quarterly results may be adversely impacted if sales fall below management’s expectations. In addition, the period of time from order to delivery of our audio and video platforms and applications is short, and therefore our backlog for such products is currently, and is expected to continue to be, small and substantially unrelated to the level of sales in subsequent periods. As a result, our results of operations for any quarter may not necessarily be indicative of results for any future period. Due to all of the foregoing factors, in some future quarters our sales or operating results may be below our forecasts and the expectations of public market analysts or investors. In such event, the market price of our ordinary shares and ADSs may be materially adversely affected.

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Forward looking statements

We make statements in this prospectus that are considered forward-looking statements under U.S. federal securities laws. We may from time to time make forward-looking statements in our reports to the SEC on Form 20-F and Form 6-K, in our annual report to shareholders, in offering circulars and prospectuses, in press releases and other written materials, and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Such forward-looking statements are based on the beliefs of our management as well as assumptions made by and information currently available to them. The words ‘‘anticipate,’’ ‘‘believe,’’ ‘‘may,’’ ‘‘estimate,’’ ‘‘expect,’’ and similar expressions, and variations of such terms or the negative of such terms, are intended to identify such forward-looking statements.

The forward-looking statements relate to, among other things: operating results; anticipated cash flows; gross margins; adequacy of resources to fund operations; our ability to maintain our average selling prices despite the aggressive marketing and pricing strategies of our competitors; our ability to maintain and develop profitable relationships with our key distribution channels; the financial strength of our key distribution channels; and the market’s acceptance of our technologies, products and solutions.

All forward-looking statements are subject to certain risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results, performance or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Important factors that could cause or contribute to such differences include, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, difficulties or delays in absorbing and integrating acquired operations, products, technologies and personnel, changes in business strategy and various other factors, as well as those discussed in this prospectus under ‘‘Risk factors,’’ our annual reports on Form 20-F, our reports on Form 6-K and other reports filed with or furnished to the SEC.

You should not place undue reliance on such forward-looking statements, which speak only as of their dates. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Use of proceeds

All ADSs offered by this prospectus are being offered by the selling securityholders. We will not receive any proceeds from any sale of shares by the selling securityholders.

Dividend policy

Since our initial public offering and listing on the Nasdaq National Market (now The Nasdaq Global Select Market) in 1996, we have not declared or paid cash dividends on our ordinary shares or ADSs. We intend to retain our earnings for future growth and therefore do not anticipate paying any cash dividends in the foreseeable future. Under Israeli law, dividends may be paid only out of profits and other surplus (as defined in the law) as of our most recent financial statements or as accrued over a period of two years, whichever is higher, provided that there is no reasonable concern that the dividend distribution will prevent us from meeting our existing and foreseeable obligations as they come due. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on various factors, such as our statutory profits, financial condition, operating results and current and anticipated cash needs. In the event cash dividends are declared by us, we may pay such dividends in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of conversion.

During May 2006, we effected a two-for-one split of our ordinary shares by way of a 100% stock dividend.

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Capitalization

The following table sets forth our capitalization as of June 30, 2007:

- on an actual basis; and
- as adjusted to give effect to the Actimize Ltd. acquisition, the related $120 million term loan and the issuance of 1,501,933 ordinary shares to the selling securityholders as if such transactions occurred on such date.

This table should be read in conjunction with our consolidated financial statements and related notes contained in our Form 20-F for the year ended December 31, 2006, which is incorporated by reference herein, and the unaudited consolidated financial statements and the notes thereto and our supplemental financial data incorporated by reference herein.

	As of June 30, 2007	
	Actual	As Adjusted
	(unaudited)	
	(in thousands of U.S. dollars)	
Short-term debt	—	120,000
Shareholders' equity:		
Ordinary shares of NIS 1.00 par value, 125,000,000 shares authorized; 52,130,738 shares issued and outstanding, actual; 53,632,671 shares issued and outstanding as adjusted.(1)	13,005	13,370
Additional paid-in capital	547,897	607,986
Accumulated other comprehensive income	7,594	7,594
Retained earnings	47,192	47,192
Total shareholders' equity	615,688	676,142
Total capitalization	615,688	796,142

(1) The number of our ordinary shares outstanding in the actual and as adjusted columns in the table above excludes:

- an aggregate of 6,471,974 ordinary shares reserved for issuance upon exercise of outstanding options as of June 30, 2007, at a weighted average exercise price of $23.64 per share;
- an aggregate of 987,104 ordinary shares reserved for issuance as restricted shares or upon exercise of options to be issued to Actimize employees pursuant to the Merger Agreement, at a weighted average issuance or exercise price of $8.41 per share; and
- an aggregate of 3,111,001 additional ordinary shares available for future issuance under our employee stock plans, subject to certain annual issuance limitations.

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Price range of American Depositary Shares and ordinary shares

Trading in the ADSs

Our American Depositary Shares, or ADSs, are quoted on The Nasdaq Global Select Market (formerly the Nasdaq

National Market) under the symbol ‘‘NICE.’’ The following table sets forth, for the periods indicated, the high and low reported market (sale) prices for our ADSs. All prices are adjusted to give retroactive effect to the May 31, 2006 two-for-one stock split of our ordinary shares.

	ADSs	
	High	Low
Annual		
2002	$ 8.52	$ 3.32
2003	12.93	3.97
2004	15.88	8.70
2005	25.05	14.65
2006	33.41	21.55
Quarterly 2005		
First Quarter	$ 17.73	$ 14.65
Second Quarter	19.98	14.92
Third Quarter	24.17	19.50
Fourth Quarter	25.05	20.21
Quarterly 2006		
First Quarter	$ 27.57	$ 22.97
Second Quarter	28.90	21.55
Third Quarter	28.50	23.50
Fourth Quarter	33.41	27.30
Quarterly 2007		
First Quarter	$ 37.00	$ 29.81
Second Quarter	40.10	33.60
Monthly		
March 2007	$ 35.71	$ 32.53
April 2007	38.46	33.60
May 2007	40.10	35.25
June 2007	38.42	34.56
July 2007	36.15	31.85
August 2007	36.59	29.52
September 2007 (through September 7, 2007)	36.90	34.78

The Bank of New York is the depositary for our ADSs. Its address is 101 Barclay Street, New York, New York 10286.

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Trading in the ordinary shares

Our ordinary shares have been listed on the Tel-Aviv Stock Exchange, or TASE, since 1991. Our ordinary shares are not listed on any other stock exchange and have not been publicly traded outside Israel (other than through ADSs as noted above). The table below sets forth the high and low reported market (sale) prices of our ordinary shares (in NIS

and dollars) on the TASE. The translation into dollars is based on the daily representative rate of exchange published by the Bank of Israel. All prices are adjusted to give retroactive effect to the May 31, 2006 two-for-one stock split of our ordinary shares.

	Ordinary Shares			
	High		Low	
	NIS	$	NIS	$
Annual				
2002	38.50	8.61	15.85	3.28
2003	56.90	12.94	18.70	3.91
2004	71.85	16.23	39.21	8.64
2005	116.00	25.22	64.25	14.59
2006	142.50	33.16	102.00	22.48
Quarterly 2005				
First Quarter				

Total Assets
$
22,228

$
22,736

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS – (continued)
(In Millions, except share amounts)
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2018	December 31, 2017
Current Liabilities:		
Short-term borrowings	$ —	$ 39
Current portion of VIE Securitization Bonds long-term debt	456	434
Indexed debt, net	25	122
Current portion of other long-term debt	50	50
Indexed debt securities derivative	685	668
Accounts payable	708	963
Taxes accrued	152	181
Interest accrued	80	104
Dividends accrued	—	120
Non-trading derivative liabilities	33	20
Other	392	368
Total current liabilities	2,581	3,069
Other Liabilities:		
Deferred income taxes, net	3,220	3,174
Non-trading derivative liabilities	6	4
Benefit obligations	722	785
Regulatory liabilities	2,506	2,464
Other	433	357
Total other liabilities	6,887	6,784
Long-term Debt:		
VIE Securitization Bonds, net	1,045	1,434
Other long-term debt, net	6,207	6,761
Total long-term debt, net	7,252	8,195
Commitments and Contingencies (Note 14)		
Shareholders' Equity:		
Cumulative preferred stock, $0.01 par value, 20,000,000 shares authorized		
Series A Preferred Stock, $0.01 par value, $800,000 aggregate liquidation preference, 800,000 shares outstanding	790	—
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 431,555,853 shares and 431,044,845 shares outstanding, respectively	4	4
Additional paid-in capital	4,221	4,209
Retained earnings	551	543
Accumulated other comprehensive loss	(58)	(68)
Total shareholders' equity	5,508	4,688

Total Liabilities and Shareholders' Equity	$ 22,228	$ 22,736

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(In Millions)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$248	$496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	982	749
Amortization of deferred financing costs	34	18
Deferred income taxes	33	185
Unrealized gain on marketable securities	(66)	(104)
Loss on indexed debt securities	316	59
Write-down of natural gas inventory	2	—
Equity in earnings of unconsolidated affiliate, net of distributions	(15)	(199)
Pension contributions	(67)	(46)
Changes in other assets and liabilities, excluding acquisitions:		
Accounts receivable and unbilled revenues, net	355	216
Inventory	(10)	(52)
Taxes receivable	(38)	30
Accounts payable	(262)	(137)
Fuel cost recovery	53	(30)
Non-trading derivatives, net	63	(53)
Margin deposits, net	2	(49)
Interest and taxes accrued	(53)	2
Net regulatory assets and liabilities	44	(135)
Other current assets	11	18
Other current liabilities	16	19
Other assets	(3)	(3)
Other liabilities	24	28
Other, net	10	16
Net cash provided by operating activities	1,679	1,028
Cash Flows from Investing Activities:		
Capital expenditures	(1,121)	(994)
Acquisitions, net of cash acquired	—	(132)
Distributions from unconsolidated affiliate in excess of cumulative earnings	30	223
Proceeds from sale of marketable securities	398	—
Other, net	19	6
Net cash used in investing activities	(674)	(897)
Cash Flows from Financing Activities:		
Increase (decrease) in short-term borrowings, net	(39)	13
Payments of commercial paper, net	(1,551)	(428)
Proceeds from long-term debt, net	997	1,096
Payments of long-term debt	(368)	(597)
Debt issuance costs	(36)	(13)

Payment of dividends on Common Stock	(360)	(346)
Proceeds from issuance of Series A Preferred Stock, net	790	—
Distribution to ZENS note holders	(398)	—
Other, net	(5)	(4)
Net cash used in financing activities	(970)	(279)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	35	(148)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	296	381
Cash, Cash Equivalents and Restricted Cash at End of Period	$331	$233

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$897	$843	$2,506	$2,233
Expenses:				
Operation and maintenance	369	337	1,062	1,021
Depreciation and amortization	242	193	737	525
Taxes other than income taxes	59	59	180	177
Total	670	589	1,979	1,723
Operating Income	227	254	527	510
Other Income (Expense):				
Interest and other finance charges	(32)	(32)	(101)	(97)
Interest on Securitization Bonds	(16)	(18)	(46)	(58)
Other, net	—	(3)	(6)	(9)
Total	(48)	(53)	(153)	(164)
Income Before Income Taxes	179	201	374	346
Income tax expense	36	71	78	123
Net Income	$143	$130	$296	$223

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$143	$130	$296	$223
Other comprehensive income:				
Net deferred gain (loss) from cash flow hedges (net of tax of $1, $-0-, $2 and $-0-)	3	—	7	(1)
Total	3	—	7	(1)
Comprehensive income	$146	$130	$303	$222

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars)
(Unaudited)

ASSETS

	September 30, 2018	December 31, 2017
Current Assets:		
Cash and cash equivalents ($278 and $230 related to VIEs, respectively)	$ 279	$ 238
Accounts and notes receivable ($92 and $73 related to VIEs, respectively), less bad debt reserve of $1 and $1, respectively	389	284
Accounts and notes receivable–affiliated companies	13	7
Accrued unbilled revenues	122	120
Materials and supplies	129	119
Taxes receivable	9	—
Non-trading derivative assets	3	—
Prepaid expenses and other current assets ($37 and $35 related to VIEs, respectively)	50	62
Total current assets	994	830
Property, Plant and Equipment:		
Property, plant and equipment	11,962	11,496
Less: accumulated depreciation and amortization	3,742	3,633
Property, plant and equipment, net	8,220	7,863
Other Assets:		
Regulatory assets ($1,146 and $1,590 related to VIEs, respectively)	1,202	1,570
Other	20	29
Total other assets	1,222	1,599
Total Assets	$ 10,436	$ 10,292

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars)
(Unaudited)

LIABILITIES AND MEMBER'S EQUITY

	September 30, 2018	December 31, 2017
Current Liabilities:		
Current portion of VIE Securitization Bonds long-term debt	$ 456	$ 434
Accounts payable	220	243
Accounts and notes payable–affiliated companies	113	104
Taxes accrued	88	116
Interest accrued	43	65
Other	111	120
Total current liabilities	1,031	1,082
Other Liabilities:		
Deferred income taxes, net	1,044	1,059
Benefit obligations	142	146
Regulatory liabilities	1,265	1,263
Other	79	54
Total other liabilities	2,530	2,522
Long-term Debt:		
VIE Securitization Bonds, net	1,045	1,434
Other, net	3,281	2,885
Total long-term debt, net	4,326	4,319
Commitments and Contingencies (Note 14)		
Member's Equity:		
Common stock	—	—
Paid-in capital	1,696	1,696
Retained earnings	846	673
Accumulated other comprehensive income	7	—
Total member's equity	2,549	2,369
Total Liabilities and Member's Equity	$ 10,436	$ 10,292

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Millions of Dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$296	$223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	737	525
Amortization of deferred financing costs	8	10
Deferred income taxes	(24)	29
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(95)	(131)
Accounts receivable/payable–affiliated companies	(12)	(49)
Inventory	(10)	(3)
Accounts payable	(6)	105
Taxes receivable	(9)	6
Interest and taxes accrued	(50)	(28)
Net regulatory assets and liabilities	(66)	(149)
Other current assets	13	8
Other current liabilities	(9)	25
Other assets	4	1
Other liabilities	16	(1)
Other, net	(5)	(4)
Net cash provided by operating activities	788	567
Cash Flows from Investing Activities:		
Capital expenditures	(678)	(603)
Decrease in notes receivable–affiliated companies	—	29
Other, net	15	5
Net cash used in investing activities	(663)	(569)
Cash Flows from Financing Activities:		
Proceeds from long-term debt, net	398	298
Payments of long-term debt	(368)	(347)
Decrease in notes payable–affiliated companies	15	—
Dividend to parent	(123)	(87)
Debt issuance costs	(4)	(3)
Other, net	—	—
Net cash used in financing activities	(82)	(139)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	43	(141)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	274	381
Cash, Cash Equivalents and Restricted Cash at End of Period	$317	$240

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Utility revenues	$402	$390	$2,032	$1,767
Non-utility revenues	910	861	3,008	2,964
Total	1,312	1,251	5,040	4,731
Expenses:				
Utility natural gas	134	106	959	706
Non-utility natural gas	864	832	2,927	2,843
Operation and maintenance	211	182	666	587
Depreciation and amortization	77	68	222	202
Taxes other than income taxes	33	32	120	104
Total	1,319	1,220	4,894	4,442
Operating Income (Loss)	(7)	31	146	289
Other Income (Expense):				
Interest and other finance charges	(30)	(32)	(92)	(92)
Other, net	—	(4)	(5)	(13)
Total	(30)	(36)	(97)	(105)
Income (Loss) From Continuing Operations Before Income Taxes	(37)	(5)	49	184
Income tax expense (benefit)	(2)	(1)	14	69
Income (Loss) From Continuing Operations	(35)	(4)	35	115
Income from discontinued operations (net of tax of $13, $26, $44 and $75, respectively)	44	42	140	124
Net Income	$9	$38	$175	$239

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 9	$ 38	$ 175	$ 239
Comprehensive income	$ 9	$ 38	$ 175	$ 239

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars)
(Unaudited)

ASSETS

	September 30, 2018	December 31, 2017
Current Assets:		
Cash and cash equivalents	$ 1	$ 12
Accounts receivable, less bad debt reserve of $14 and $18, respectively	527	713
Accrued unbilled revenues	90	307
Accounts and notes receivable–affiliated companies	9	6
Materials and supplies	69	56
Natural gas inventory	206	222
Non-trading derivative assets	73	110
Prepaid expenses and other current assets	85	166
Total current assets	1,060	1,592
Property, Plant and Equipment:		
Property, plant and equipment	7,260	6,888
Less: accumulated depreciation and amortization	2,185	2,036
Property, plant and equipment, net	5,075	4,852
Other Assets:		
Goodwill	867	867
Regulatory assets	170	181
Non-trading derivative assets	38	44
Investment in unconsolidated affiliate - discontinued operations	—	2,472
Other	95	104
Total other assets	1,170	3,668
Total Assets	$ 7,305	$ 10,112

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars)
(Unaudited)

LIABILITIES AND STOCKHOLDER'S EQUITY

	September 30, 2018	December 31, 2017
Current Liabilities:		
Short-term borrowings	$ —	$ 39
Accounts payable	429	669
Accounts and notes payable–affiliated companies	44	611
Taxes accrued	64	75
Interest accrued	31	32
Customer deposits	74	76
Non-trading derivative liabilities	33	20
Other	171	137
Total current liabilities	846	1,659
Other Liabilities:		
Deferred income taxes, net	370	362
Deferred income taxes, net - discontinued operations	—	927
Non-trading derivative liabilities	6	4
Benefit obligations	98	97
Regulatory liabilities	1,241	1,201
Other	350	297
Total other liabilities	2,065	2,888
Long-Term Debt	2,257	2,457
Commitments and Contingencies (Note 14)		
Stockholder's Equity:		
Common stock	—	—
Paid-in capital	1,668	2,528
Retained earnings (accumulated deficit)	463	574
Accumulated other comprehensive income	6	6
Total stockholder's equity	2,137	3,108
Total Liabilities and Stockholder's Equity	$ 7,305	$ 10,112

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Millions of Dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$175	$239
Less: Income from discontinued operations, net of tax	140	124
Income from continuing operations	35	115
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	222	202
Amortization of deferred financing costs	7	7
Deferred income taxes	6	69
Write-down of natural gas inventory	2	—
Changes in other assets and liabilities, excluding acquisitions:		
Accounts receivable and unbilled revenues, net	449	346
Accounts receivable/payable–affiliated companies	—	(1)
Inventory	1	(49)
Accounts payable	(261)	(227)
Fuel cost recovery	53	(30)
Interest and taxes accrued	(9)	(13)
Non-trading derivatives, net	60	(51)
Margin deposits, net	2	(49)
Net regulatory assets and liabilities	73	(28)
Other current assets	7	16
Other current liabilities	24	(5)
Other assets	5	5
Other liabilities	(2)	4
Other, net	—	1
Net cash provided by operating activities from continuing operations	674	312
Net cash provided by operating activities from discontinued operations	176	—
Net cash provided by operating activities	850	312
Cash Flows from Investing Activities:		
Capital expenditures	(411)	(373)
Acquisitions, net of cash acquired	—	(132)
Other, net	5	2
Net cash used in investing activities from continuing operations	(406)	(503)
Net cash provided by investing activities from discontinued operations	47	223
Net cash used in investing activities	(359)	(280)
Cash Flows from Financing Activities:		
Increase (decrease) in short-term borrowings, net	(39)	13
Payments of commercial paper, net	(800)	(40)
Proceeds from long-term debt	599	298

Dividends to parent	(286)	(337)
Debt issuance costs	(5)	(4)
Decrease in notes payable–affiliated companies	(570)	—
Contribution from parent	600	38
Other, net	(1)	—
Net cash used in financing activities from continuing operations	(502)	(32)
Net cash provided by financing activities from discontinued operations	—	—
Net cash used in financing activities	(502)	(32)
Net Decrease in Cash and Cash Equivalents	(11)	—
Cash and Cash Equivalents at Beginning of Period	12	1
Cash and Cash Equivalents at End of Period	$1	$1

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

COMBINED NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

No Registrant makes any representations as to the information related solely to CenterPoint Energy or the subsidiaries of CenterPoint Energy other than itself.

General. Included in this combined Form 10-Q are the Interim Condensed Financial Statements of CenterPoint Energy, Houston Electric and CERC, which are referred to collectively as the Registrants. The Combined Notes to the Unaudited Condensed Consolidated Financial Statements apply to all Registrants unless otherwise indicated. The Interim Condensed Financial Statements are unaudited, omit certain financial statement disclosures and should be read with each of the Registrants' 2017 Form 10-K.

Background. CenterPoint Energy, Inc. is a public utility holding company and owns interests in Enable as described below. CenterPoint Energy's operating subsidiaries, Houston Electric and CERC, own and operate electric transmission and distribution and natural gas distribution facilities and supply natural gas to commercial and industrial customers and electric and natural gas utilities.

- Houston Electric engages in the electric transmission and distribution business in the Texas Gulf Coast area that includes the city of Houston; and

- CERC Corp. (i) owns and operates natural gas distribution systems in six states and (ii) obtains and offers competitive variable and fixed-price physical natural gas supplies and services primarily to commercial and industrial customers and electric and natural gas utilities in 33 states through its wholly-owned subsidiary, CES.

As of September 30, 2018, CenterPoint Energy, indirectly through CNP Midstream, owned approximately 54.0% of the common units representing limited partner interests in Enable, 50% of the management rights and 40% of the incentive distribution rights in Enable GP and also directly owned an aggregate of 14,520,000 Enable Series A Preferred Units. Enable owns, operates and develops natural gas and crude oil infrastructure assets.

On September 4, 2018, CERC entered into a Contribution Agreement, by and between CERC and CNP Midstream, a new subsidiary formed by CERC in June 2018, pursuant to which CERC contributed its equity investment in Enable consisting of Enable common units and its interests in Enable GP, to CNP Midstream (collectively, the Enable Contribution). Immediately following the Enable Contribution, CERC distributed all of its interest in CNP Midstream to Utility Holding, CERC's sole stockholder and a wholly-owned subsidiary of CenterPoint Energy. Utility Holding then distributed all of its interest in CNP Midstream to CenterPoint Energy, its sole member (collectively with the Enable Contribution, the Internal Spin). CERC executed the Internal Spin to, among other things, enhance the access of CERC and CenterPoint Energy to low cost debt and equity through increased transparency and understandability of the financial statements, improve CERC's credit quality by eliminating the exposure to Enable's midstream business and provide clarity of internal reporting and performance metrics to enhance management's decision making for CERC and CNP Midstream.

As a result of the Internal Spin, CERC's equity in earnings in Enable and related income taxes have been classified as discontinued operations in CERC's Interim Condensed Financial Statements. For further information regarding the

Internal Spin and CERC’s presentation of discontinued operations, see Note 9.

As of September 30, 2018, CenterPoint Energy and Houston Electric had VIEs consisting of the Bond Companies, which are consolidated. The consolidated VIEs are wholly-owned, bankruptcy-remote, special purpose entities that were formed specifically for the purpose of securitizing transition and system restoration-related property. Creditors of CenterPoint Energy and Houston Electric have no recourse to any assets or revenues of the Bond Companies. The bonds issued by these VIEs are only payable from and secured by transition and system restoration property, and the bondholders have no recourse to the general credit of CenterPoint Energy or Houston Electric.

Basis of Presentation. 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.

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The Interim Condensed Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the respective periods. Amounts reported in the Condensed Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests. Certain prior year amounts have been reclassified to conform to the current year presentation. See Notes 2 and 9 for further discussion.

For a description of the Registrants' reportable business segments, see Note 16.

(2) New Accounting Pronouncements

The following table provides an overview of recently adopted or issued accounting pronouncements applicable to all the Registrants, unless otherwise noted.

Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2014-09- Revenue from Contracts with Customers (Topic 606) and related amendments	This standard provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. Transition method: modified retrospective	January 1, 2018	Note 4 addresses the disclosure requirements. Adoption of the standard did not result in significant changes to revenue recognition. A substantial amount of the Registrants' revenues are tariff and/or derivative based, which were not significantly impacted by these ASUs.
ASU 2017-05- Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	This standard clarifies when and how to apply ASC 610-20, which was issued as part of ASU 2014-09. It amends or supersedes the guidance in ASC 350 and ASC 360 on determining a gain or loss recognized upon the derecognition of nonfinancial assets. Transition method: modified retrospective	January 1, 2018	ASU 2017-05 eliminates industry specific guidance, including ASC 360-20 Property, Plant, and Equipment - Real Estate Sales, for the recognition of gains or losses upon the sale of in-substance real estate. CenterPoint Energy and CERC elected to apply the practical expedient upon adoption to only evaluate transactions that were not determined to be complete as of the date of adoption. Subsequent to adoption, gains or losses on sales or dilution events in CenterPoint Energy's investment in Enable may result in gains or losses recognized in earnings. See Note 9 for further discussion.
ASU 2016-01-Financial Instruments-Overall	This standard requires equity investments that do not result in	January 1, 2018	The adoption of this standard did not have an impact on the

(Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ASU 2018-03-Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	consolidation and are not accounted for under the equity method to be measured at fair value and to recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. It does not change the guidance for classifying and measuring investments in debt securities and loans. It also changes certain disclosure requirements and other aspects related to recognition and measurement of financial assets and financial liabilities. Transition method: cumulative-effect adjustment to beginning retained earnings, and two features prospective		Registrants' financial position, results of operations or cash flows. The Registrants elected the practicability exception for investments without a readily determinable fair value to be measured at cost. This includes the Enable Series A Preferred Units owned by CenterPoint Energy, which were previously accounted for under the cost method. See Note 9 for further discussion.
ASU 2016-15- Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This standard provides clarifying guidance on the classification of certain cash receipts and payments in the statement of cash flows and eliminates the variation in practice related to such classifications. Transition method: retrospective	January 1, 2018	The adoption did not have a material impact on the Registrants' financial position, results of operations or disclosures. However, CenterPoint Energy's and Houston Electric's Condensed Statements of Consolidated Cash Flows reflect an increase in investing activities and a corresponding decrease in operating activities of $1 million and $3 million for the nine months ended September 30, 2018 and 2017, respectively, due to the requirement that cash proceeds from COLI policies be classified as cash inflows from investing activity.

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Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, the statement of cash flows will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Transition method: retrospective	January 1, 2018	The adoption of this standard did not have an impact on the Registrants' financial position, results of operations or disclosures. However, CenterPoint Energy's and Houston Electric's Condensed Statements of Consolidated Cash Flows are reconciled to cash, cash equivalents and restricted cash, resulting in a decrease in investing activities of $2 million and an increase in investing activities of $8 million for the nine months ended September 30, 2018 and 2017, respectively. See Note 17 for further discussion.
ASU 2017-01- Business Combinations (Topic 805): Clarifying the Definition of a Business	This standard revises the definition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then under ASU 2017-01, the asset or group of assets is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs to be more closely aligned with how outputs are described in ASC 606. Transition method: prospective	January 1, 2018	The adoption of this revised definition will reduce the number of transactions that are accounted for as a business combination, and therefore may have a potential impact on the Registrants' accounting for future acquisitions.
ASU 2017-04- Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This standard eliminates Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Transition method: prospective	January 1, 2018	The adoption of this standard will have an impact on CenterPoint Energy's and CERC's future calculation of goodwill impairments if an impairment is identified.
ASU 2017-07- Compensation-Retirement Benefits (Topic 715):	This standard requires an employer to report the service cost component of the net periodic pension cost and	January 1, 2018	The adoption of this standard did not have a material impact on the Registrants'

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	postretirement benefit cost in the same line item(s) as other employee compensation costs arising from services rendered during the period; all other components will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. In addition, only the service cost component will be eligible for capitalization in assets. Transition method: retrospective for the presentation of the service cost component and other components; prospective for the capitalization of the service cost component		financial position, results of operations, cash flows or disclosures; however, it resulted in the increases to operating income and corresponding decreases to other income reported in the table below. Other components previously capitalized in assets will be recorded as regulatory assets in the Registrants' rate-regulated businesses, prospectively.
ASU 2017-09- Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting	This standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. Transition method: prospective	January 1, 2018	The adoption of this standard will have an impact on CenterPoint Energy's accounting for future changes to share-based payment awards.
ASU 2017-12- Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This standard expands an entity's ability to hedge and account for risk components, reduces the complexity of applying certain aspects of hedge accounting and updates the presentation and disclosure requirements. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness. Transition method: cumulative-effect adjustment for elimination of the separate measurement of ineffectiveness; prospective for presentation and disclosure	July 1, 2018 Applicable January 1, 2018	The adoption of this standard did not have a material impact on the Registrants' financial position, results of operations or cash flows. As a result of the adoption, the Registrants will no longer recognize ineffectiveness for derivatives designated as cash flow hedges; all changes in fair value will flow through other comprehensive income. As the Registrants did not have existing cash flow hedges as of the initial application date and the adoption date, no cumulative effective adjustment was recorded. Note 7 reflects disclosures modified upon adoption.
ASU 2018-13- Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for	This standard eliminates, modifies and adds certain disclosure requirements for fair value measurements. Transition method: prospective for	Adoption of eliminations and modifications as of September 30, 2018; Additions	The adoption of this standard did not impact the Registrants' financial position, results of operations or cash flows. Note 8 reflects the disclosures

Fair Value Measurement	additions and one modification and retrospective for all other amendments	will be adopted January 1, 2020	modified upon adoption.

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The table below reflects the impact of adoption of ASU 2017-07:

	Three Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Increase to operating income	$9	$ 3	$ —	$18	$ 7	$ 5
Decrease to other income	9	3	—	18	7	5

	Nine Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Increase to operating income	$38	$ 18	$ 8	$52	$ 22	$ 16
Decrease to other income	38	18	8	52	22	16

Issued, Not Yet Effective Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2016-02- Leases (Topic 842) and related amendments ASU 2018-01- Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842 ASU 2018-10 - Codification Improvements to Topic 842, Leases ASU 2018-11- Leases (Topic 842)-Targeted Improvements	ASU 2016-02 provides a comprehensive new lease model that requires lessees to recognize assets and liabilities for most leases and would change certain aspects of lessor accounting. Transition method: modified retrospective ASU 2018-01 allows entities to elect not to assess whether existing land easements that were not previously accounted for in accordance with ASC 840 Leases under ASC 842 Leases when transitioning to the new leasing standard. ASU 2018-10 makes sixteen narrow-scope amendments to ASC 842 Leases. ASU 2018-11 allows entities the transition option to not apply the new lease standards in the comparative financial	January 1, 2019 Early adoption is permitted	The Registrants will elect the practical expedient on existing easements provided by ASU 2018-01, and the transition option to not apply the new lease standards in the comparative financial statements presented in the year of adoption provided by ASU 2018-11. The Registrants are evaluating other available transitional practical expedients. The Registrants are in the process of reviewing contracts to identify leases as defined in ASU 2016-02 and expect to recognize on the statements of financial position right-of-use assets and lease liabilities for the majority of their respective leases that are currently classified as operating leases. The Registrants are continuing to assess the impact that adoption of these standards will have on their financial position, results of operations, cash flows and disclosures.

	statements presented in the year of adoption. It also gives lessors the practical expedient to not separate non-lease and lease components when certain criteria are met.		
ASU 2016-13- Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This standard requires a new model called CECL to estimate credit losses for (1) financial assets subject to credit losses and measured at amortized cost and (2) certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure based on historical information, current information and reasonable and supportable forecasts, including estimates of prepayments. Transition method: modified retrospective	January 1, 2020 Early adoption is permitted starting January 1, 2019	The Registrants are currently assessing the impact that this standard will have on their financial position, results of operations, cash flows and disclosures.
ASU 2018-02-Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA and requires entities to provide certain disclosures regarding stranded tax effects. Transition method: either in the period of adoption or retrospective	January 1, 2019 Early adoption is permitted	The adoption of this standard will allow the Registrants to reclass stranded deferred tax adjustments primarily related to benefit plans from other comprehensive income to retained earnings. The Registrants are currently assessing the impact that adoption of this standard will have on their financial position and disclosures.

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Issued, Not Yet Effective Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2018-14-Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans	This standard eliminates, modifies and adds certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Transition method: retrospective	January 1, 2021 Early adoption is permitted	The adoption of this standard will impact the Registrants' annual disclosures and is not expected to have an impact on their financial position, results of operations, and cash flows. The Registrants are currently assessing the standard's impact on the Stock-Based Incentive Compensation Plans and Employee Benefit Plans footnote.
ASU 2018-15- Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This standard aligns accounting for implementation costs incurred in a cloud computing arrangement that is accounted for as a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The update also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Transition method: retrospective or prospective	January 1, 2020 Early adoption is permitted	The adoption of this standard will allow the Registrants to capitalize certain implementation costs incurred in cloud computing arrangements that are accounted for as service contracts. The Registrants are currently assessing the impact that adoption of this standard will have on their financial position, results of operations, cash flows and disclosures.

Management believes that other recently adopted standards and recently issued standards that are not yet effective will not have a material impact on the Registrants' financial position, results of operations or cash flows upon adoption.

(3) Pending Merger with Vectren (CenterPoint Energy)

On April 21, 2018, CenterPoint Energy entered into the Merger Agreement. Under the terms of the Merger Agreement, CenterPoint Energy will acquire Vectren for approximately $6 billion in cash. Upon closing, Vectren will become a wholly-owned subsidiary of CenterPoint Energy.

Pursuant to the Merger Agreement, upon the closing of the Merger, each share of Vectren common stock issued and outstanding immediately prior to the closing will be converted automatically into the right to receive $72.00 in cash per share. During August and October 2018, CenterPoint Energy completed its permanent financing for the Merger through offerings of the Series A Preferred Stock, depositary shares, each representing a 1/20th interest in a share of

Series B Preferred Stock, Common Stock and unsecured senior notes. See Notes 12 and 19 for further details regarding the Merger financings. As of September 30, 2018, Vectren and its subsidiaries had outstanding $325 million of short-term debt and $2.0 billion of long-term debt, including current maturities. It is anticipated that Vectren and its subsidiaries will have approximately $2.5 billion of outstanding short-term and long-term debt as of December 31, 2018.

Consummation of the Merger is conditioned upon approval by federal regulatory commissions, orders from state regulatory commissions, expiration or termination of the applicable HSR waiting period and approval of the Merger by Vectren shareholders. In June 2018, CenterPoint Energy and Vectren (i) submitted their filings with the FERC and the FCC, (ii) submitted their filings with the FTC pursuant to the HSR Act and (iii) initiated informational proceedings with regulators in Indiana and Ohio. On June 26, 2018, CenterPoint Energy and Vectren received notice from the FTC granting early termination of the waiting period under the HSR Act in connection with the Merger. On August 28, 2018, shareholders of Vectren, during a special shareholders' meeting, approved the Merger. The FCC granted approvals on July 20 and 24, 2018, and on October 5, 2018, the FERC authorized the Merger. A hearing before the Indiana Utility Regulatory Commission was held on October 17, 2018 with respect to the Merger. CenterPoint Energy has requested a final order for this proceeding by the end of January or early February 2019.

The Merger Agreement contains termination rights for both CenterPoint Energy and Vectren, and provides that, upon termination of the Merger Agreement under specified circumstances, CenterPoint Energy would be required to pay a termination fee of $210 million to Vectren or Vectren would be required to pay CenterPoint Energy a termination fee of $150 million.

Subject to receipt of required regulatory and statutory approvals and satisfaction and/or waiver of the closing conditions, CenterPoint Energy continues to anticipate closing the Merger in the first quarter of 2019.

(4) Revenue Recognition

The Registrants adopted ASC 606 and all related amendments on January 1, 2018 using the modified retrospective method for those contracts that were not completed as of the date of adoption. Application of the new revenue standard did not result in a cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and

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continues to be reported under the accounting standards in effect for those periods. The adoption of the new standard did not have a material impact on the Registrants' financial position, results of operations or cash flows.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Registrants expect to be entitled to receive in exchange for these goods or services. Contract assets and liabilities are not material.

The following tables disaggregate revenues by reportable business segment and major source:

CenterPoint Energy

	Three Months Ended September 30,									
	2018					2017				
	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)									
Revenue from contracts	$904	$ 398	$82	$ 1	$1,385	$852	$ 396	$97	$ 2	$1,347
Derivatives income	—	—	838	—	838	—	—	774	—	774
Other (3)	(7)	12	—	2	7	(9)	2	—	2	(5)
Eliminations	—	(8)	(10)	—	(18)	—	(8)	(10)	—	(18)
Total revenues	$897	$ 402	$910	$ 3	$2,212	$843	$ 390	$861	$ 4	$2,098

	Nine Months Ended September 30,									
	2018					2017				
	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)									
Revenue from contracts	$2,525	$ 2,093	$338	$ 4	$4,960	$2,254	$ 1,784	$355	$ 4	$4,397
Derivatives income	(4)	—	2,727	—	2,723	1	—	2,643	—	2,644
Other (3)	(19)	(35)	—	7	(47)	(21)	7	—	7	(7)
Eliminations	—	(26)	(57)	—	(83)	—	(24)	(34)	—	(58)
Total revenues	$2,502	$ 2,032	$3,008	$ 11	$7,553	$2,234	$ 1,767	$2,964	$ 11	$6,976

Houston Electric

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Revenue from contracts	$904	$852	$2,525	$2,254

Other (3)	(7)	(9)	(19)	(21)
	$897	$843	$2,506	$2,233

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CERC

	Three Months Ended September 30,					
	2018			2017		
	Natural Gas Distribution (1)	Energy Services (2)	Total	Natural Gas Distribution (1)	Energy Services (2)	Total
	(in millions)					
Revenue from contracts	$398	$82	$480	$396	$97	$493
Derivatives income	—	838	838	—	774	774
Other (3)	12	—	12	2	—	2
Eliminations	(8)	(10)	(18)	(8)	(10)	(18)
Total revenues	$402	$910	$1,312	$390	$861	$1,251

	Nine Months Ended September 30,					
	2018			2017		
	Natural Gas Distribution (1)	Energy Services (2)	Total	Natural Gas Distribution (1)	Energy Services (2)	Total
	(in millions)					
Revenue from contracts	$2,093	$338	$2,431	$1,784	$355	$2,139
Derivatives income	—	2,727	2,727	—	2,643	2,643
Other (3)	(35)	—	(35)	7	—	7
Eliminations	(26)	(57)	(83)	(24)	(34)	(58)
Total revenues	$2,032	$3,008	$5,040	$1,767	$2,964	$4,731

(1) Reflected in Utility revenues in the Condensed Statements of Consolidated Income.

(2) Reflected in Non-utility revenues in the Condensed Statements of Consolidated Income.

(3) Primarily consists of income from ARPs and leases. ARPs are contracts between the utility and its regulators, not between the utility and a customer. The Registrants recognize ARP revenue as other revenues when the regulator-specified conditions for recognition have been met. Upon recovery of ARP revenue through incorporation in rates charged for utility service to customers, ARP revenue is reversed and recorded as revenue from contracts with customers. The recognition of ARP revenues and the reversal of ARP revenues upon recovery through rates charged for utility service may not occur in the same period.

Revenues from Contracts with Customers

Electric Transmission & Distribution. Houston Electric distributes electricity to customers over time and customers consume the electricity when delivered. Revenue, consisting of both volumetric and fixed tariff rates set by the PUCT, is recognized as electricity is delivered and represents amounts both billed and unbilled. Discretionary services requested by customers are provided at a point in time with control transferring upon the completion of the service. Revenue for discretionary services is recognized upon completion of service based on the tariff rates set by the PUCT. Payments for electricity distribution and discretionary services are aggregated and received on a monthly basis. Houston Electric performs transmission services over time as a stand-ready obligation to provide a reliable network of transmission systems. Revenue is recognized upon time elapsed, and the monthly tariff rate set by the PUCT. Payments are received on a monthly basis.

Natural Gas Distribution. CERC distributes and transports natural gas to customers over time, and customers consume the natural gas when delivered. Revenue, consisting of both volumetric and fixed tariff rates set by the state governing agency for that service area, is recognized as natural gas is delivered and represents amounts both billed and unbilled. Discretionary services requested by the customer are satisfied at a point in time and revenue is recognized upon completion of service and the tariff rates set by the applicable state regulator. Payments of natural gas distribution, transportation and discretionary services are aggregated and received on a monthly basis.

Energy Services. The majority of CES natural gas sales contracts are considered a derivative, as the contracts typically have a stated minimum or contractual volume of delivery.

For contracts in which CES delivers the full requirement of the natural gas needed by the customer and a volume is not stated, a contract as defined under ASC 606 is created upon the customer's exercise of its option to take natural gas. CES supplies natural

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gas to retail customers over time as customers consume the natural gas when delivered. For wholesale customers, CES supplies natural gas at a point in time because the wholesale customer is presumed to have storage capabilities. Control is transferred to both types of customers upon delivery of natural gas. Revenue is recognized on a monthly basis based on the estimated volume of natural gas delivered and the price agreed upon with the customer. Payments are received on a monthly basis.

AMAs are natural gas sales contracts under which CES also assumes management of a customer's physical storage and/or transportation capacity. AMAs have two distinct performance obligations, which consist of natural gas sales and natural gas delivery because delivery could occur separate from the sale of natural gas (e.g., from storage to customer premises). Most AMAs' natural gas sales performance obligations are accounted for as embedded derivatives. The transaction price is allocated between the sale of natural gas and the delivery based on the stand-alone selling price as stated in the contract. CES performs natural gas delivery over time as customers take delivery of the natural gas and recognizes revenue on an aggregated monthly basis based on the volume of natural gas delivered and the fees stated within the contract. Payments are received on a monthly basis.

Practical Expedients and Exemption. Sales taxes and other similar taxes collected from customers are excluded from the transaction price.

(5) Employee Benefit Plans

The Registrants' net periodic cost, before considering amounts subject to overhead allocations for capital expenditure projects or for amounts subject to deferral for regulatory purposes, includes the following components relating to pension and postretirement benefits:

Pension Benefits (CenterPoint Energy)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Service cost (1)	$10	$9	$28	$27
Interest cost (2)	20	22	59	66
Expected return on plan assets (2)	(27)	(24)	(80)	(72)
Amortization of prior service cost (2)	3	2	7	7
Amortization of net loss (2)	10	14	32	43
Net periodic cost	$16	$23	$46	$71

Postretirement Benefits

	Three Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Service cost (1)	$—	$ —	$ 1	$—	$ —	$ 1
Interest cost (2)	3	2	1	4	3	1
Expected return on plan assets (2)	(1)	(1)	—	(1)	(1)	(1)
Amortization of prior service credit (2)	(1)	(1)	—	(1)	(2)	—

Net periodic cost	$1	$ —	$ 2	$2	$ —	$ 1

	Nine Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Service cost (1)	$1	$ —	$ 1	$1	$ —	$ 1
Interest cost (2)	10	6	3	12	7	3
Expected return on plan assets (2)	(4)	(3)	(1)	(4)	(3)	(1)
Amortization of prior service cost (credit) (2)	(3)	(4)	1	(3)	(4)	1
Net periodic cost (credit)	$4	$ (1)	$ 4	$6	$ —	$ 4

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(1) Amounts presented in the table above are included in Operation and maintenance expense in each of the Registrants' respective Condensed Statements of Consolidated Income, net of amounts capitalized and regulatory deferrals.

(2) Amounts presented in the table above are included in Other, net in each of the Registrants' respective Condensed Statements of Consolidated Income, net of regulatory deferrals.

Changes in accumulated other comprehensive loss related to defined benefit and postretirement plans are as follows:

CenterPoint Energy

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Beginning Balance	$(63)	$(70)	$(66)	$(72)
Amounts reclassified from accumulated other comprehensive loss:				
Prior service cost (1)	—	—	1	1
Actuarial losses (1)	2	2	5	5
Tax expense	(1)	(2)	(2)	(4)
Net current period other comprehensive income	1	—	4	2
Ending Balance	$(62)	$(70)	$(62)	$(70)

(1) These accumulated other comprehensive components are included in the computation of net periodic cost.

The table below reflects the expected contributions to be made to the pension plans and postretirement benefit plan during 2018:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Expected minimum contribution to pension plans during 2018	$ 67	$ —	$ —
Expected contribution to postretirement benefit plan in 2018	16	10	5

The table below reflects the contributions made to the pension plans and postretirement benefit plan during 2018:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Pension plans	$3	$ —	$ —	$ 67	$ —	$ —
Postretirement benefit plan	4	3	1	11	7	3

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(6) Regulatory Accounting

The following is a list of regulatory assets and liabilities reflected on the Registrants' Condensed Consolidated Balance Sheets:

	September 30, 2018			December 31, 2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
Regulatory Assets:	(in millions)					
Current regulatory assets (1)	$60	$ —	$60	$130	$ —	$130
Non-current regulatory assets:						
Securitized regulatory assets	1,146	1,146	—	1,590	1,590	—
Unrecognized equity return (2)	(225)	(225)	—	(287)	(287)	—
Unamortized loss on reacquired debt	70	70	—	75	75	—
Pension and postretirement-related regulatory asset (3)	609	32	15	646	31	20
Hurricane Harvey restoration costs (4)	67	61	6	64	58	6
Regulatory assets related to TCJA (5)	48	34	14	48	33	15
Other long-term regulatory assets (6)	219	84	135	211	70	140
Total non-current regulatory assets	1,934	1,202	170	2,347	1,570	181
Total regulatory assets	1,994	1,202	230	2,477	1,570	311
Regulatory Liabilities:						
Current regulatory liabilities (7)	47	22	25	24	22	2
Non-current regulatory liabilities:						
Regulatory liabilities related to TCJA (5)	1,362	858	504	1,354	862	492
Estimated removal costs	887	275	612	878	285	593
Other long-term regulatory liabilities	257	132	125	232	116	116
Total non-current regulatory liabilities	2,506	1,265	1,241	2,464	1,263	1,201
Total regulatory liabilities	2,553	1,287	1,266	2,488	1,285	1,203
Total regulatory assets and liabilities, net	$(559)	$ (85)	$(1,036)	$(11)	$ 285	$(892)

(1) Current regulatory assets are included in Prepaid expenses and other current assets in the Registrants' Condensed Consolidated Balance Sheets.

(2) The unrecognized equity return will be recognized as it is recovered in rates through 2024. During the three months ended September 30, 2018 and 2017, CenterPoint Energy and Houston Electric recognized approximately $17 million and $13 million, respectively, of the allowed equity return. During the nine months ended September 30, 2018 and 2017, CenterPoint Energy and Houston Electric recognized approximately $62 million and $30 million, respectively, of the allowed equity return. The timing of CenterPoint Energy's and Houston Electric's recognition of the equity return will vary each period based on amounts actually collected during the period. The actual amounts recognized are adjusted at least annually to correct any over-collections or under-collections during the preceding 12 months.

(3) Includes a portion of NGD's actuarially determined pension and other postemployment expense in excess of the amount being recovered through rates that is being deferred for rate making purposes, of which $4 million and $7 million as of September 30, 2018 and December 31, 2017, respectively, were not earning a return.

(4) The Registrants are not earning a return on Hurricane Harvey restoration costs.

(5) The EDIT and deferred revenues will be recovered or refunded to customers as required by tax and regulatory authorities.

(6) Other long-term regulatory assets that are not earning a return were not material as of September 30, 2018 and December 31, 2017.

(7) Current regulatory liabilities are included in Other current liabilities in each of the Registrants' respective Condensed Consolidated Balance Sheets.

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(7) Derivative Instruments

The Registrants are exposed to various market risks. These risks arise from transactions entered into in the normal course of business. The Registrants utilize derivative instruments such as physical forward contracts, swaps and options to mitigate the impact of changes in commodity prices, weather and interest rates on its operating results and cash flows. Such derivatives are recognized in the Registrants' Condensed Consolidated Balance Sheets at their fair value unless the Registrants elect the normal purchase and sales exemption for qualified physical transactions. A derivative may be designated as a normal purchase or normal sale if the intent is to physically receive or deliver the product for use or sale in the normal course of business.

CenterPoint Energy has a Risk Oversight Committee composed of corporate and business segment officers that oversees commodity price, weather and credit risk activities, including the Registrants' marketing, risk management services and hedging activities. The committee's duties are to establish the Registrants' commodity risk policies, allocate board-approved commercial risk limits, approve the use of new products and commodities, monitor positions and ensure compliance with the Registrants' commercial risk management policy and procedures and limits established by CenterPoint Energy's Board of Directors.

The Registrants' 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.

(a) Non-Trading Activities

Commodity Derivative Instruments. CenterPoint Energy and CERC, through CES, enter into certain derivative instruments to mitigate the effects of commodity price movements. Certain financial instruments used to hedge portions of the natural gas inventory of the Energy Services business segment are designated as fair value hedges for accounting purposes. All other financial instruments do not qualify or are not designated as cash flow or fair value hedges.

Weather Hedges. CenterPoint Energy and CERC have weather normalization or other rate mechanisms that mitigate the impact of weather on NGD in Arkansas, Louisiana, Mississippi, Minnesota and Oklahoma. NGD and electric operations in Texas do not have such mechanisms, although fixed customer charges are historically higher in Texas for NGD compared to its other jurisdictions. As a result, fluctuations from normal weather may have a positive or negative effect on NGD's results in Texas and on electric operations' results in its service territory.

CenterPoint Energy and CERC, as applicable, enter into winter season weather hedges from time to time for certain NGD jurisdictions and electric operations' service territory to mitigate the effect of fluctuations from normal weather on results of operations and cash flows. These weather hedges are based on heating degree days at 10-year normal weather. Houston Electric does not enter into weather hedges.

The table below summarizes CenterPoint Energy's and CERC's current weather hedge gain (loss) activity:

			Three Months Ended September 30,		Nine Months Ended September 30,	
Jurisdiction	Winter Season	Bilateral Cap	2018	2017	2018	2017
		(in millions)				

Certain NGD jurisdictions	2018 – 2019	$9	$ —	$ —	$ —	$ —
Certain NGD jurisdictions	2017 – 2018	8	—	—	—	—
Total CERC (1)			—	—	—	—
Electric operations’ service territory	2018 – 2019	8	—	—	—	—
Electric operations’ service territory	2017 – 2018	9	—	—	(4)	—
Electric operations’ service territory	2016 – 2017	9	—	—	—	1
Total CenterPoint Energy (1)			$ —	$ —	$ (4)	$ 1

(1) Weather hedge gains (losses) are recorded in Revenues in the Condensed Statements of Consolidated Income.

Cash Flow Hedging of Interest Expense. From time to time, the Registrants enter into forward interest rate agreements with certain counterparties designated as cash flow hedges. The objective of these cash flow hedges is to reduce exposure to variability in cash flows related to interest payments on anticipated future fixed rate debt offerings or other exposure to variable rate debt. In October 2018, Houston Electric entered into an additional $100 million of notional amount on forward interest rate agreements

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classified as cash flow hedges. As of September 30, 2018 and December 31, 2017, the total outstanding notional amount of Houston Electric's forward interest rate agreements related to cash flow hedges was $100 million and $-0-, respectively. The maximum length of time over which Houston Electric is exposed to the variability in future cash flows of the forecasted debt offerings is less than 12 months.

Economic Hedging of Interest Rate Risk. From time to time, the Registrants may enter into forward interest rate agreements with certain counterparties designated as economic hedges. The objective of these economic hedges is to offset any interest rate risk borne by one or more of the Registrants in connection with an anticipated future fixed rate debt offering or other exposure to variable rate debt. As of September 30, 2018 and December 31, 2017, the total outstanding notional amount of CenterPoint Energy's forward interest rate agreements related to economic hedges in connection with the permanent financing for the Merger was $200 million and $-0-, respectively. As of September 30, 2018 and December 31, 2017, the fair value of interest rate derivatives was less than $1 million and therefore was not included in the tabular presentation below.

(b) Derivative Fair Values and Income Statement Impacts

The following tables present information about derivative instruments and hedging activities. The first two tables provide a balance sheet overview of Derivative Assets and Liabilities, while the last table provides a breakdown of the related income statement impacts.

Fair Value of Derivative Instruments and Hedged Items

	Balance Sheet Location	September 30, 2018		December 31, 2017	
		Derivative Assets Fair Value	Derivative Liabilities Fair Value	Derivative Assets Fair Value	Derivative Liabilities Fair Value
		(in millions)			
Derivatives designated as cash flow hedges:					
Interest rate derivatives	Current Assets: Non-trading derivative assets	$3	$ —	$ —	$ —
Total Houston Electric		3	—	—	—
Derivatives designated as fair value hedges:					
Natural gas derivatives (1) (2) (3)	Current Liabilities: Non-trading derivative liabilities	—	2	13	1
Derivatives not designated as hedging instruments:					
Natural gas derivatives (1) (2) (3)	Current Assets: Non-trading derivative assets	76	3	114	4
Natural gas derivatives (1) (2) (3)	Other Assets: Non-trading derivative assets	38	—	44	—
Natural gas derivatives (1) (2) (3)	Current Liabilities: Non-trading derivative liabilities	31	72	38	78
Natural gas derivatives (1) (2) (3)	Other Liabilities: Non-trading derivative liabilities	16	33	9	24
Total CERC		161	110	218	107
Indexed debt securities derivative	Current Liabilities	—	685	—	668
Total CenterPoint Energy		$164	$ 795	$218	$ 775

(1) The fair value shown for natural gas contracts is comprised of derivative gross volumes totaling 1,865 Bcf or a net 310 Bcf long position and 1,795 Bcf or a net 224 Bcf long position as of September 30, 2018 and December 31,

2017, respectively. Certain natural gas contracts hedge basis risk only and lack a fixed price exposure.

(2) Natural gas contracts are presented on a net basis in the Condensed Consolidated Balance Sheets as they are subject to master netting arrangements. This netting applies to all undisputed amounts due or past due and causes derivative assets (liabilities) to be ultimately presented net in a liability (asset) account within the Condensed Consolidated Balance Sheets. The net of total non-trading natural gas derivative assets and liabilities was a $72 million asset and a $130 million asset as of September 30, 2018 and December 31, 2017, respectively, as shown on CenterPoint Energy's and CERC's Condensed Consolidated Balance Sheets (and as detailed in the Offsetting of Natural Gas Derivative Assets and Liabilities table below), and was comprised of the natural gas contracts derivative assets and liabilities separately shown above, impacted by collateral netting of $21 million and $19 million, respectively.

(3) Derivative Assets and Derivative Liabilities include no material amounts related to physical forward transactions with Enable.

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Cumulative Basis Adjustment for Fair Value Hedges (CenterPoint Energy and CERC)

	Balance Sheet Location	September 30, 2018		December 31, 2017	
		Carrying Amount of Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Item	Carrying Amount of Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Item
Hedged items in fair value hedge relationship:		(in millions)			
Natural gas inventory	Current Assets: Natural gas inventory	$ 39	$ 1	$ 80	$ 14
Total CenterPoint Energy and CERC		$ 39	$ 1	$ 80	$ 14

Offsetting of Natural Gas Derivative Assets and Liabilities (CenterPoint Energy and CERC)

	September 30, 2018			December 31, 2017		
	Gross Amounts Recognized (1)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets (2)	Gross Amounts Recognized (1)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets (2)
	(in millions)					
Current Assets: Non-trading derivative assets	$ 107	$ (34)	$ 73	$ 165	$ (55)	$ 110
Other Assets: Non-trading derivative assets	54	(16)	38	53	(9)	44
Current Liabilities: Non-trading derivative liabilities	(77)	44	(33)	(83)	63	(20)
Other Liabilities: Non-trading derivative liabilities	(33)	27	(6)	(24)	20	(4)
Total	$ 51	$ 21	$ 72	$ 111	$ 19	$ 130

(1) Gross amounts recognized include some derivative assets and liabilities that are not subject to master netting arrangements.

(2) The derivative assets and liabilities on the Condensed Consolidated Balance Sheets exclude accounts receivable or accounts payable that, should they exist, could be used as offsets to these balances in the event of a default.

Income Statement Impact of Hedge Accounting Activity (CenterPoint Energy and CERC)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017

	Location and Amount of Gain (Loss) recognized in Income on Hedging Relationship (2)			
	Non-utility natural gas expense		Non-utility natural gas expense	
	(in millions)			
Total amounts presented in the statements of income in which the effects of hedges are recorded	$864	$832	$2,927	$2,843
Gain (loss) on fair value hedging relationships:				
Commodity contracts:				
Hedged items - Natural gas inventory	1	4	(13)	(10)
Derivatives designated as hedging instruments	(1)	(4)	13	10
Amounts excluded from effectiveness testing recognized in earnings immediately (1)	6	(9)	(73)	(93)

(1) As a result of the adoption of ASU 2017-12 effective January 1, 2018 (see Note 2 for additional information), CenterPoint Energy and CERC exclude from their assessment of hedge effectiveness the natural gas market price difference between locations of the hedged inventory and the delivery location specified in the hedge instruments. Prior to the adoption of this accounting guidance, the timing difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity, was excluded from the assessment of effectiveness for CenterPoint Energy’s and CERC’s existing fair value hedges and will continue to be excluded from the assessment of hedge effectiveness. CenterPoint Energy and CERC elected to continue to

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immediately recognize amounts excluded from hedge effectiveness in their respective Condensed Statements of Consolidated Income.

(2) Income statement impact associated with cash flow hedge activity is related to gains and losses reclassified from accumulated other comprehensive income into income. Amounts are immaterial for the Registrants for both the three and nine months ended September 30, 2018 and 2017, respectively.

	Income Statement Location	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Effects of derivatives not designated as hedging instruments on the income statement:		(in millions)			
Commodity contracts	Gains (Losses) in Non-utility revenues	$2	$30	$70	$162
Total CERC		2	30	70	162
Indexed debt securities derivative	Gains (Losses) in Other Income (Expense)	(44)	(36)	(316)	(59)
Interest rate derivatives	Gains (Losses) in Interest and other finance charges	—	—	—	—
Total CenterPoint Energy		$(42)	$(6)	$(246)	$103

Effect of Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income

	Amount of Gain (Loss) Recognized in Other Comprehensive Income, Net of Tax on Derivative: Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
	(in millions)			
Effects of cash flow hedging				
Interest rate derivatives (1)	$3	$—	$7	$(1)
Total Houston Electric	3	—	7	(1)
Interest rate derivatives (1)	—	(1)	—	(1)
Total CERC	—	(1)	—	(1)
Interest rate derivatives (1)	—	(1)	(1)	(1)
Total CenterPoint Energy	$3	$(2)	$6	$(3)

(1) Gains and losses are reclassified from accumulated other comprehensive income into income when the hedged transactions affect earnings. The reclassification amounts are included in Interest and other finance charges in the Condensed Statements of Consolidated Income. Amounts are less than $1 million for each of the three and nine months ended September 30, 2018 and 2017. Over the next twelve months, estimated amortization of accumulated other comprehensive income into related income is expected to be immaterial.

(c) Credit Risk Contingent Features

CenterPoint Energy and CERC enter into financial derivative contracts containing material adverse change provisions. These provisions could require CenterPoint Energy or CERC to post additional collateral if the S&P or Moody's credit ratings of CenterPoint Energy, Inc. or its subsidiaries, including CERC Corp., are downgraded.

CenterPoint Energy and CERC

	September 30, 2018	December 31, 2017
	(in millions)	
Aggregate fair value of derivatives containing material adverse change provisions in a net liability position	$ 2	$ 2
Fair value of collateral already posted	—	—
Additional collateral required to be posted if credit risk contingent features triggered	1	2

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(8) Fair Value Measurements

Assets and liabilities that are recorded at fair value in the Registrants' Condensed Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined below and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are exchange-traded derivatives and equity securities, as well as natural gas inventory that has been designated as the hedged item in a fair value hedge.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are derivatives with fair values based on inputs from actively quoted markets. A market approach is utilized to value the Registrants' Level 2 natural gas derivative assets or liabilities. CenterPoint Energy's Level 2 indexed debt securities derivative is valued using an option model and a discounted cash flow model, which uses projected dividends on the ZENS-Related Securities and a discount rate as observable inputs.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Unobservable inputs reflect the Registrants' judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Registrants develop these inputs based on the best information available, including the Registrants' own data. A market approach is utilized to value the Registrants' Level 3 assets or liabilities. As of September 30, 2018, CenterPoint Energy's and CERC's Level 3 assets and liabilities are comprised of physical natural gas forward contracts and options. Level 3 physical natural gas forward contracts and options include illiquid forward price curve locations (ranging from $1.28 to $6.88 per MMBtu) as an unobservable input. CenterPoint Energy's and CERC's Level 3 physical natural gas forward contracts and options derivative assets and liabilities consist of both long and short positions (forwards and options). Forward price decreases (increases) as of September 30, 2018 would have resulted in lower (higher) values, respectively, for long forwards and options and higher (lower) values, respectively, for short forwards and options.

The Registrants determine the appropriate level for each financial asset and liability on a quarterly basis. The Registrants also recognize purchases of Level 3 financial assets and liabilities at their fair market value at the end of the reporting period.

The following tables present information about the Registrants' assets and liabilities (including derivatives that are presented net) measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Registrants to determine such fair value.

CenterPoint Energy

	September 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting (1)	Total	Level 1	Level 2	Level 3	Netting (1)	Total
Assets	(in millions)									
Corporate equities	$630	$—	$—	$—	$630	$963	$—	$—	$—	$963
Investments, including money market funds (2)	70	—	—	—	70	68	—	—	—	68
Interest rate derivatives	3	—	—	—	3	—	—	—	—	—
Natural gas derivatives (3)	—	134	27	(50)	111	—	161	57	(64)	154

Hedged portion of natural gas inventory	1	—	—	—	1	14	—	—	—	14
Total assets	$704	$134	$ 27	$ (50)	$815	$1,045	$161	$57	$ (64)	$1,199
Liabilities										
Indexed debt securities derivative	$—	$685	$ —	$ —	$685	$—	$—	$668	$ —	$668
Natural gas derivatives (3)	—	105	5	(71)	39	—	96	11	(83)	24
Total liabilities	$—	$790	$ 5	$ (71)	$724	$—	$96	$679	$ (83)	$692

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Houston Electric

	September 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting	Total	Level 1	Level 2	Level 3	Netting	Total
Assets	(in millions)									
Investments, including money market funds (2)	$52	$ —	$ —	$ —	$ 52	$51	$ —	$ —	$ —	$ 51
Interest rate derivatives	3	—	—	—	3	—	—	—	—	—
Total assets	$55	$ —	$ —	$ —	$ 55	$51	$ —	$ —	$ —	$ 51

CERC

	September 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting (1)	Total	Level 1	Level 2	Level 3	Netting (1)	Total
Assets	(in millions)									
Corporate equities	$3	$—	$ —	$ —	$3	$3	$—	$ —	$ —	$3
Investments, including money market funds (2)	10	—	—	—	10	11	—	—	—	11
Natural gas derivatives (3)	—	134	27	(50)	111	—	161	57	(64)	154
Hedged portion of natural gas inventory	1	—	—	—	1	14	—	—	—	14
Total assets	$14	$134	$ 27	$ (50)	$125	$28	$161	$ 57	$ (64)	$182
Liabilities										
Natural gas derivatives (3)	$—	$105	$ 5	$ (71)	$39	$—	$96	$ 11	$ (83)	$24
Total liabilities	$—	$105	$ 5	$ (71)	$39	$—	$96	$ 11	$ (83)	$24

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow CenterPoint Energy and CERC to settle positive and negative positions and also include cash collateral of $21 million and $19 million as of September 30, 2018 and December 31, 2017, respectively, posted with the same counterparties.

(2) Amounts are included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

(3) Natural gas derivatives include no material amounts related to physical forward transactions with Enable.

The following table presents additional information about assets or liabilities, including derivatives that are measured at fair value on a recurring basis for which CenterPoint Energy and CERC have utilized Level 3 inputs to determine fair value:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	CenterPoint Energy	CERC	CenterPoint Energy	CERC	CenterPoint Energy	CERC	CenterPoint Energy	CERC
	(in millions)							
Beginning balance	$(628)	$ 13	$(712)	$ 28	$(622)	$ 46	$(704)	$ 13
Total gains (losses)	1	1	(38)	(2)	4	4	(38)	21
Total settlements	(1)	(1)	(1)	(1)	(36)	(36)	(5)	(5)
Transfers into Level 3	—	—	7	7	(2)	(2)	9	9
Transfers out of Level 3 (1)	650	9	(6)	(6)	678	10	(12)	(12)
Ending balance (2)	$22	$ 22	$(750)	$ 26	$22	$ 22	$(750)	$ 26

The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date:							
$11	$ 11	$(36)	$ —	$9	$ 9	$(42)	$ 17

(1) As of September 30, 2018, CenterPoint Energy transferred its indexed debt securities derivative from Level 3 to Level 2 to reflect changes in the significance of the unobservable inputs used in the valuation.

(2) CenterPoint Energy and CERC did not have significant Level 3 sales or purchases during either of the three or nine months ended September 30, 2018 or 2017.

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Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents, investments in debt and equity securities classified as "trading" and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. The carrying amounts of non-trading derivative assets and liabilities and CenterPoint Energy's ZENS indexed debt securities derivative are stated at fair value and are excluded from the table below. The fair value of each debt instrument is determined by multiplying the principal amount of each debt instrument by a combination of historical trading prices and comparable issue data. These liabilities, which are not measured at fair value in the Registrants' Condensed Consolidated Balance Sheets, but for which the fair value is disclosed, would be classified as Level 2 in the fair value hierarchy.

	September 30, 2018			December 31, 2017		
	CenterPoint Energy (1)	Houston Electric (1)	CERC	CenterPoint Energy (1)	Houston Electric (1)	CERC
Long-term debt, including current maturities	(in millions)					
Carrying amount	$7,758	$4,782	$2,257	$8,679	$4,753	$2,457
Fair value	7,888	4,813	2,367	9,220	5,034	2,708

(1) Includes Securitization Bond debt.

(9) Unconsolidated Affiliate (CenterPoint Energy and CERC)

CenterPoint Energy has the ability to significantly influence the operating and financial policies of Enable, a publicly traded MLP, and, accordingly, account for the investment in Enable's common units using the equity method of accounting. Upon the adoption of ASU 2014-09 and ASU 2017-05 on January 1, 2018, CenterPoint Energy evaluated transactions in the investment in Enable that occurred prior to January 1, 2018 (the effective date) and concluded a cumulative effect adjustment to the opening balance of retained earnings was not required. See Note 2 for further discussion.

CenterPoint Energy's maximum exposure to loss related to Enable, a VIE in which CenterPoint Energy is not the primary beneficiary, is limited to the equity investment, the Series A Preferred Unit investment and outstanding current accounts receivable from Enable.

On September 4, 2018, CERC completed the Internal Spin of its equity investment in Enable and Enable GP. The Internal Spin has been accounted for under the guidance for transactions between entities under common control. As of September 4, 2018, CERC derecognized its investment in Enable at carrying value on the date of distribution of $2.4 billion, net of deferred income taxes of $974 million, and CNP Midstream recorded the net asset contribution from CERC at CERC's carrying value. Neither CERC nor CNP Midstream recognized a gain or loss upon the distribution or contribution, respectively, of net assets involved in the Internal Spin. In connection with the Internal Spin, CenterPoint Energy, through Utility Holding, made a $600 million capital contribution to CERC, which was used by CERC to repay outstanding indebtedness that historically supported CERC's legacy midstream assets. See Note 18 for further discussion.

Limited Partner Interest and Units Held in Enable (CenterPoint Energy):

	September 30, 2018		
	Limited Partner Interest	Common Units	Enable Series A Preferred

	(1)			Units (2)
CenterPoint Energy (3)	54.0	%	233,856,623	14,520,000
OGE	25.6	%	110,982,805	—
Public unitholders	20.4	%	88,376,728	—
Total units outstanding	100.0	%	433,216,156	14,520,000

(1) Excludes the Enable Series A Preferred Units owned by CenterPoint Energy.

(2) The carrying amount of the Enable Series A Preferred Units, reflected as Preferred units - unconsolidated affiliate on CenterPoint Energy's Condensed Consolidated Balance Sheets, was $363 million as of both September 30, 2018 and December 31, 2017. No impairment charges or adjustment due to observable price changes were made during the current or prior reporting periods. See Note 2 for further discussion.

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(3) Includes Enable Series A Preferred Units held directly by CenterPoint Energy and common units held indirectly through CNP Midstream.

Generally, sales to any person or entity (including a series of sales to the same person or entity) of more than 5% of the aggregate of the common units CNP Midstream owns in Enable or sales to any person or entity (including a series of sales to the same person or entity) by OGE of more than 5% of the aggregate of the common units it owns in Enable are subject to mutual rights of first offer and first refusal set forth in Enable's Agreement of Limited Partnership.

Interests Held in Enable GP (CenterPoint Energy):

	September 30, 2018	
	Management Rights (1)	Incentive Distribution Rights (2)
CenterPoint Energy (3)	50 %	40 %
OGE	50 %	60 %

(1) Enable is controlled jointly by CenterPoint Energy and OGE. Sale of CenterPoint Energy's or OGE's ownership interests in Enable GP to a third party is subject to mutual rights of first offer and first refusal, and CenterPoint Energy is not permitted to dispose of less than all of its interest in Enable GP.

(2) Enable is expected to pay a minimum quarterly distribution of $0.2875 per common unit on its outstanding common units to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to Enable GP and its affiliates, within 60 days after the end of each quarter. If cash distributions to Enable's unitholders exceed $0.330625 per common unit in any quarter, Enable GP will receive increasing percentages or incentive distributions rights, up to 50%, of the cash Enable distributes in excess of that amount. In certain circumstances Enable GP will have the right to reset the minimum quarterly distribution and the target distribution levels at which the incentive distributions receive increasing percentages to higher levels based on Enable's cash distributions at the time of the exercise of this reset election. To date, no incentive distributions have been made.

(3) Includes interests held through CNP Midstream.

Distributions Received from Enable (CenterPoint Energy and CERC):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Investment in Enable common units (1)	$74	$ 74	$223	$223
Total CERC (2)	74	74	223	223
Investment in Enable Series A Preferred Units (3)	9	9	27	27
Total CenterPoint Energy	$83	$ 83	$250	$250

(1) Reflects cash distributions of $0.318 and $0.954 per common unit for the three and nine months ended September 30, 2018 and 2017, respectively.

(2) On September 4, 2018, CERC completed the Internal Spin. After such date, CNP Midstream owned the Enable common units previously owned by CERC.

(3) Reflects cash distributions of $0.625 and $1.875 per Enable Series A Preferred Unit for the three and nine months ended September 30, 2018 and 2017, respectively.

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Transactions with Enable (CenterPoint Energy and CERC):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Reimbursement of transition services (1) (CenterPoint Energy)	$1	$ —	$ 4	$ 3
Natural gas expenses, including transportation and storage costs (CenterPoint Energy and CERC)	23	23	89	80

(1) Represents amounts billed under the Transition Agreements for certain support services provided to Enable. Actual transition services costs are recorded net of reimbursement.

	September 30, 2018	December 31, 2017
	(in millions)	
Accounts receivable for amounts billed for transition services (CenterPoint Energy)	$ 3	$ 1
Accounts payable for natural gas purchases from Enable (CenterPoint Energy and CERC)	8	13

Summarized unaudited consolidated income information for Enable is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating revenues	$928	$705	$2,481	$1,997
Cost of sales, excluding depreciation and amortization	516	349	1,335	936
Depreciation and amortization	100	90	292	267
Operating income	171	137	436	399
Net income attributable to Enable common units	129	104	320	301
Reconciliation of Equity in Earnings, net:				
CenterPoint Energy's interest	$70	$56	$173	$163
Basis difference amortization (1)	11	12	35	36
CenterPoint Energy's equity in earnings, net	$81	$68	$208	$199

(1) Equity in earnings of unconsolidated affiliate includes CenterPoint Energy's share of Enable's earnings adjusted for the amortization of the basis difference of CenterPoint Energy's original investment in Enable and their underlying equity in Enable's net assets. The basis difference is amortized over approximately 31 years, the average life of the assets to which the basis difference is attributed.

Summarized unaudited consolidated balance sheet information for Enable is as follows:

	September 30, 2018	December 31, 2017
	(in millions)	
Current assets	$481	$ 416
Non-current assets	11,454	11,177
Current liabilities	1,403	1,279
Non-current liabilities	2,964	2,660

Non-controlling interest	11	12
Preferred equity	362	362
Enable partners' equity	7,195	7,280
Reconciliation of Investment in Enable:		
CenterPoint Energy's ownership interest in Enable partners' equity	$3,883	$ 3,935
CenterPoint Energy's basis difference	(1,426)	(1,463)
CenterPoint Energy's equity method investment in Enable	$2,457	$ 2,472

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Discontinued Operations (CERC):

The Internal Spin represents a significant strategic shift that has a material effect on CERC's operations and financial results and, as a result, CERC's distribution of its equity investment in Enable met the criteria for discontinued operations classification. CERC has no continuing involvement in the equity investment of Enable. Therefore, CERC's equity in earnings and related income taxes have been classified as Income from discontinued operations, net of tax, in CERC's Condensed Statements of Consolidated Income for the periods presented. CERC's equity method investment and related deferred income tax liabilities have been classified as Investment in unconsolidated affiliate - discontinued operations and Deferred income taxes, net - discontinued operations, respectively, in CERC's Condensed Consolidated Balance Sheets for the periods presented. The following table presents amounts included in Income from discontinued operations, net of tax in CERC's Condensed Statements of Consolidated Income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Equity in earnings of unconsolidated affiliate, net	$57	$ 68	$184	$199
Income tax expense	13	26	44	75
Income from discontinued operations, net of tax	$44	$ 42	$140	$124

(10) Goodwill and Other Intangibles (CenterPoint Energy and CERC)

CenterPoint Energy's and CERC's goodwill by reportable business segment as of both September 30, 2018 and December 31, 2017 is as follows:

	(in millions)
Natural Gas Distribution	$ 746
Energy Services (1)	110
Other Operations	11
Total	$ 867

(1) Amount presented is net of the accumulated goodwill impairment charge of $252 million recorded in 2012.

CenterPoint Energy and CERC perform goodwill impairment tests at least annually and evaluate goodwill when events or changes in circumstances indicate that its carrying value may not be recoverable. The impairment evaluation for goodwill is performed by comparing the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is primarily determined on the basis of discounted cash flows. If the carrying amount is in excess of the estimated fair value of the reporting unit, then the excess amount is the impairment charge that should be recorded, not to exceed the carrying amount of goodwill. See Note 2 for further discussion.

CenterPoint Energy and CERC performed the annual goodwill impairment test in the third quarter of 2018 and determined that no goodwill impairment charge was required for any reporting unit, which approximate the reportable segments.

The tables below present information on CenterPoint Energy's and CERC's other intangible assets recorded in Other non-current assets on the Condensed Consolidated Balance Sheets.

September 30, 2018 December 31, 2017

	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
	(in years)	(in millions)					
Customer relationships	15	$86	$ (26)	$ 60	$86	$ (21)	$ 65
Covenants not to compete	4	4	(2)	2	4	(2)	2
Other	Various	15	(10)	5	15	(8)	7
Total		$105	$ (38)	$ 67	$105	$ (31)	$ 74

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Amortization expense of intangible assets	$2	$ 2	$ 7	$ 5

(11) Indexed Debt Securities (ZENS) and Securities Related to ZENS (CenterPoint Energy)

(a) Investment in Securities Related to ZENS

In 1995, CenterPoint Energy sold a cable television subsidiary to TW and received certain TW securities as partial consideration. A subsidiary of CenterPoint Energy holds shares of certain securities detailed in the table below, which are classified as trading securities and are expected to be held to facilitate CenterPoint Energy's ability to meet its obligation under the ZENS. Unrealized gains and losses resulting from changes in the market value of the ZENS-Related Securities are recorded in CenterPoint Energy's Condensed Statements of Consolidated Income.

	Shares Held	
	September 30, 2018	December 31, 2017
AT&T Common	10,212,945	—
Charter Common	872,503	872,503
Time Common	—	888,392
TW Common	—	7,107,130

(b) ZENS

In September 1999, CenterPoint Energy issued ZENS having an original principal amount of $1 billion of which $828 million remain outstanding as of September 30, 2018. Each ZENS was originally 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 TW Common attributable to such note. The number and identity of the reference shares attributable to each ZENS are adjusted for certain corporate events.

On October 22, 2016, AT&T announced that it had entered into a definitive agreement to acquire TW in a stock and cash transaction. On February 15, 2017, TW shareholders approved the announced transaction with AT&T. The merger closed on June 14, 2018. CenterPoint Energy received $53.75 and 1.437 shares of AT&T Common for each share of TW Common held, resulting in cash proceeds of $382 million and 10,212,945 shares of AT&T Common. In accordance with the terms of the ZENS, CenterPoint Energy remitted $382 million to ZENS note holders in July 2018, which reduced the contingent principal amount.

On November 26, 2017, Meredith announced that it had entered into a definitive merger agreement with Time. Pursuant to the merger agreement, upon closing of the merger, a subsidiary of Meredith would purchase for cash all outstanding Time Common shares for $18.50 per share. The transaction was consummated on January 31, 2018. CenterPoint Energy elected to make a reference share offer adjustment and distribute additional interest, if any, in accordance with the terms of its ZENS rather than electing to increase the early exchange ratio to 100%. CenterPoint Energy's distribution of additional interest in connection with the reference share offer was proportionate to the percentage of eligible shares that were validly tendered by Time stockholders in Meredith's tender offer. CenterPoint Energy received $18.50 for each share of Time Common held, resulting in cash proceeds of approximately $16

million. In accordance with the terms of the ZENS, CenterPoint Energy distributed additional interest of approximately $16 million to ZENS holders on March 6, 2018, which reduced the contingent principal amount.

As a result, CenterPoint Energy recorded the following during the nine months ended September 30, 2018:

	Meredith	AT&T/Time TW
	(in millions)	
Cash payment to ZENS note holders	$ 16	$ 382
Indexed debt – reduction	(4)	(95)
Indexed debt securities derivative – reduction	(1)	(45)
Loss on indexed debt securities	$ 11	$ 242

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CenterPoint Energy's reference shares for each ZENS consisted of the following:

	September 30, 2018	December 31, 2017
	(in shares)	
AT&T Common	0.7185	—
Charter Common	0.061382	0.061382
Time Common	—	0.0625
TW Common	—	0.5

As of September 30, 2018, the contingent principal amount of the ZENS was $98 million.

(12) Short-term Borrowings and Long-term Debt

(a) Short-term Borrowings (CenterPoint Energy and CERC)

Inventory Financing. NGD has AMAs associated with its utility distribution service in Arkansas, Louisiana, Mississippi, Oklahoma and Texas. In March 2018, NGD's third party AMAs in Arkansas, Louisiana and Oklahoma expired, and NGD entered into new AMAs with CES effective April 1, 2018 in these states. The AMAs have varying terms, the longest of which expires in 2021. Pursuant to the provisions of the agreements, NGD sells natural gas and agrees to repurchase an equivalent amount of natural gas during the winter heating seasons at the same cost. These transactions are accounted for as an inventory financing and had an associated principal obligation of $ -0- and $39 million as of September 30, 2018 and December 31, 2017, respectively.

(b) Long-term Debt

Debt Issuances. During the nine months ended September 30, 2018, the following debt instruments were issued:

	Issuance Date	Debt Instrument	Aggregate Principal Amount (in millions)	Interest Rate	Maturity Date
Houston Electric	February 2018	General mortgage bonds	$ 400	3.95%	2048
CERC Corp.	March 2018	Unsecured senior notes	300	3.55%	2023
CERC Corp.	March 2018	Unsecured senior notes	300	4.00%	2028

The proceeds from these issuances were used for general limited liability company and corporate purposes, as applicable, including to repay portions of outstanding commercial paper and borrowings under CenterPoint Energy's money pool.

Merger Financings. On October 5, 2018, the following debt instruments were issued:

	Debt Instrument	Aggregate Principal Amount (in millions)	Interest Rate	Maturity Date
CenterPoint Energy	Unsecured senior notes	$ 500	3.60%	2021
CenterPoint Energy	Unsecured senior notes	500	3.85%	2024
CenterPoint Energy	Unsecured senior notes	500	4.25%	2028

CenterPoint Energy intends to use the net proceeds from these debt issuances to fund a portion of the pending Merger and to pay related fees and expenses.

If CenterPoint Energy does not consummate the Merger on or prior to October 31, 2019, or if, on or prior to such date, the Merger Agreement is terminated, CenterPoint Energy will be required to redeem all of the outstanding notes at a redemption price equal to 101% of the principal amount of the notes plus accrued and unpaid interest, if any, to, but excluding, the date of such special mandatory redemption. The notes may also be redeemed at CenterPoint Energy's option, in whole but not in part, at any time before October 31, 2019, at a redemption price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the date of such redemption, if CenterPoint Energy determines, in its reasonable judgment, that the Merger will not be consummated on or before close of business on October 31, 2019.

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Credit Facility. In May 2018, CenterPoint Energy entered into an amendment to its revolving credit facility to increase the aggregate commitments from $1.7 billion to $3.3 billion effective the earlier of (i) the termination of all commitments by certain lenders to provide the Bridge Facility and (ii) the payment in full of all obligations (other than contingent obligations) under the Bridge Facility and termination of all commitments to advance additional credit thereunder, and in each case, so long as the Merger Agreement has not been terminated pursuant to the terms thereof without consummation of the Merger. This increase to CenterPoint Energy's revolving credit facility will automatically expire on the earlier of the (a) termination date of the revolving credit facility and (b) if the Merger Agreement is terminated without consummation of the Merger, the date that is 90 days after such termination. In addition, the amendment provides for a temporary increase on the maximum ratio of debt for borrowed money to capital from 65% to 75% until the earlier of (i) June 30, 2019 and (ii) the termination of all commitments in respect of the Bridge Facility without any borrowing thereunder. On October 5, 2018, CenterPoint Energy terminated all remaining commitments by lenders to provide the Bridge Facility. As a result, the aggregate commitments under the revolving credit facility automatically increased from $1.7 billion to $3.3 billion and the maximum ratio of debt for borrowed money to capital reverted to 65%.

The Registrants had the following revolving credit facilities and utilization of such facilities:

		September 30, 2018				December 31, 2017			
	Size of Facility	Loans	Letters of Credit	Commercial Paper	Weighted Average Interest Rate	Loans	Letters of Credit	Commercial Paper	Weighted Average Interest Rate
	(in millions, except weighted average interest rate)								
CenterPoint Energy	$1,700 (1)	$—	$ 6	$ 104	2.42 %	$—	$ 6	$ 855	1.88 %
Houston Electric	300	—	4	—	—	—	4	—	—
CERC Corp.	900	—	1	98	2.43 %	—	1	898	1.72 %
Total	$2,900	$—	$ 11	$ 202		$—	$ 11	$ 1,753	

(1) Pursuant to the amendment entered into in May 2018, the aggregate commitments under the CenterPoint Energy revolving credit facility increased to $3.3 billion on October 5, 2018 as a result of the satisfaction of certain conditions described above.

Execution Date	Company	Size of Facility		Draw Rate of LIBOR plus (1)	Financial Covenant Limit on Debt for Borrowed Money to Capital Ratio		Debt for Borrowed Money to Capital Ratio as of September 30, 2018 (2)	Termination Date
		(in millions)						
March 3, 2016	CenterPoint Energy	$ 1,700	(3)	1.250%	75%	(4) (5)	47.5%	March 3, 2022
March 3, 2016	Houston Electric	300		1.125%	65%	(5)	50.7%	March 3, 2022
March 3, 2016	CERC Corp.	900		1.125%	65%		48.6%	March 3, 2022

(1) Based on current credit ratings.

(2) As defined in the revolving credit facility agreement, excluding Securitization Bonds.

(3) Pursuant to the amendment entered into in May 2018, the aggregate commitments under the CenterPoint Energy revolving credit facility increased to $3.3 billion on October 5, 2018 as a result of the satisfaction of certain conditions described above.

(4) On October 5, 2018, CenterPoint Energy’s financial covenant limit returned to 65% due to the termination of all commitments in respect of the Bridge Facility without any borrowing thereunder.

(5) For CenterPoint Energy (whenever its financial covenant limit is 65%) and Houston Electric, the financial covenant limit will temporarily increase from 65% to 70% if Houston Electric experiences damage from a natural disaster in its service territory and CenterPoint Energy certifies to the administrative agent that Houston Electric has incurred system restoration costs reasonably likely to exceed $100 million in a consecutive 12-month period, all or part of which Houston Electric intends to seek to recover through securitization financing. Such temporary increase in the financial covenant would be in effect from the date CenterPoint Energy delivers its certification until the earliest to occur of (i) the completion of the

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securitization financing, (ii) the first anniversary of CenterPoint Energy's certification or (iii) the revocation of such certification.

The Registrants were in compliance with all financial debt covenants as of September 30, 2018.

Other. As of both September 30, 2018 and December 31, 2017, Houston Electric had issued $118 million of general mortgage bonds as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected in Houston Electric's consolidated financial statements because of the contingent nature of the obligations.

(13) Income Taxes

The Registrants reported the following effective tax rates:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
CenterPoint Energy (1)	24 %	37 %	26 %	36 %
Houston Electric (2)	20 %	35 %	21 %	36 %
CERC - Continuing operations (3) (4)	5 %	20 %	29 %	38 %
CERC - Discontinued operations (5)	23 %	38 %	24 %	38 %

(1) CenterPoint Energy's lower effective tax rate for the three and nine months ended September 30, 2018 compared to the same periods for 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate decreased by 5% and 4%, respectively, for the three and nine months ended September 30, 2018 due to the amortization of EDIT. These decreases were partially offset by an increase to the effective tax rate of 5% for the three-month period ended September 30, 2018 as a result of the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. The effective tax rate increased by 7% for the nine-month period ended September 30, 2018 due to state law changes and the state valuation allowance. See Note 9 for further discussion on the Internal Spin.

(2) Houston Electric's lower effective tax rate for the three and nine months ended September 30, 2018 compared to the same periods for 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate was further reduced by 2% for both periods due to the amortization of EDIT.

(3) CERC's lower effective tax rate on the loss from continuing operations for the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate decreased by 18% due to state taxes as a result of the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. These decreases were partially offset by an increase to the effective tax rate of 15% due to the amortization of EDIT. See Note 9 for further discussion on the Internal Spin.

(4) CERC's lower effective tax rate on income from continuing operations for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate decreased by

20% due to the amortization of EDIT. These decreases were partially offset by an increase to the effective tax rate of 22% as a result of an increase in state tax rates and the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. See Note 9 for further discussion on the Internal Spin.

(5) CERC's lower effective tax rate on income from discontinued operations for the three and nine months ended September 30, 2018 compared to the same periods in 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. See Note 9 for further discussion on the Internal Spin and the associated discontinued operations presentation.

The Registrants reported no uncertain tax liability as of September 30, 2018 and expect no significant changes to the uncertain tax liability over the next twelve months. Tax years through 2016 have been audited and settled with the IRS, however, during the

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three months ended September 30, 2018, CenterPoint Energy filed an amended 2014 tax return to claim additional tax credits that is currently under review by the IRS. For the 2017 and 2018 tax years, CenterPoint Energy is a participant in the IRS's Compliance Assurance Process.

(14) Commitments and Contingencies

(a) Natural Gas Supply Commitments (CenterPoint Energy and CERC)

Natural gas supply commitments include natural gas contracts related to CenterPoint Energy's and CERC's Natural Gas Distribution and Energy Services business segments, which have various quantity requirements and durations, that are not classified as non-trading derivative assets and liabilities in CenterPoint Energy's and CERC's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 as these contracts meet an exception as "normal purchases contracts" or do not meet the definition of a derivative. Natural gas supply commitments also include natural gas transportation contracts that do not meet the definition of a derivative.

As of September 30, 2018, minimum payment obligations for natural gas supply commitments are approximately:

	(in millions)
Remaining three months of 2018	$ 88
2019	325
2020	303
2021	219
2022	183
2023 and beyond	1,644

(b) Legal, Environmental and Other Matters

Legal Matters

Gas Market Manipulation Cases (CenterPoint Energy and CERC). CenterPoint Energy, its predecessor, Reliant Energy, and certain of their former subsidiaries were named as defendants in a large number of lawsuits filed against numerous gas market participants in a number of federal and western state courts in connection with the operation of the natural gas markets in 2000-2002. CenterPoint Energy and its affiliates were released or dismissed from all such cases, except for one case pending in federal court in Nevada in which CES, a subsidiary of CERC Corp., is a defendant. Plaintiffs in that case allege a conspiracy to inflate Wisconsin natural gas prices in 2000-2002. In May 2016, the district court granted CES's motion for summary judgment, dismissing CES from the case. In August 2018, the Ninth Circuit Court of Appeals reversed that ruling, and CES requested further appellate review of that decision.

Under a master separation agreement between CenterPoint Energy and a former subsidiary, RRI, CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI and its successors for any losses, including certain attorneys' fees and other costs, arising out of these lawsuits. Through a series of transactions, RRI became known as GenOn and a wholly-owned subsidiary of NRG. None of those transactions alters GenOn's contractual obligations to indemnify CenterPoint Energy and its subsidiaries for certain liabilities, including their indemnification obligations regarding the gas market manipulation litigation. In June 2017, however, GenOn and various affiliates filed for protection under Chapter 11 of the U.S. Bankruptcy Code and are expected to emerge from Chapter 11 in 2018. CenterPoint Energy, CERC, and CES submitted proofs of claim in the bankruptcy proceedings to protect their indemnity rights.

In October 2018, CES, GenOn, and the plaintiffs reached an agreement to settle all claims against CES and CES's indemnity claims against GenOn, subject to approvals by the bankruptcy court and the federal district court. If the

settlement agreement is not approved and if GenOn's bankruptcy proceedings result in it not being required to fulfill its indemnity obligations, CES could incur liability and be responsible for satisfying it. CenterPoint Energy does not expect the ultimate outcome of this matter to have a material adverse effect on its financial condition, results of operations or cash flows.

Minnehaha Academy (CenterPoint Energy and CERC). On August 2, 2017, a natural gas explosion occurred at the Minnehaha Academy in Minneapolis, Minnesota, resulting in the deaths of two school employees, serious injuries to others and significant property damage to the school. CenterPoint Energy, certain of its subsidiaries, including CERC, and the contractor company working in the school have been named in litigation arising out of this incident. CenterPoint Energy has reached confidential settlement agreements with some claimants. Additionally, CenterPoint Energy is cooperating with the ongoing investigation conducted by the National Transportation Safety Board. Further, CenterPoint Energy is contesting approximately $200,000 in

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fines imposed by the Minnesota Office of Pipeline Safety. In early 2018, the Minnesota Occupational Safety and Health Administration concluded its investigation without any adverse findings against CenterPoint Energy. CenterPoint Energy's general and excess liability insurance policies provide coverage for third party bodily injury and property damage claims.

Environmental Matters

MGP Sites (CenterPoint Energy and CERC). CERC and its predecessors operated MGPs in the past. With respect to certain Minnesota MGP sites, CERC has completed state-ordered remediation and continues state-ordered monitoring and water treatment. As of September 30, 2018, CERC had a recorded liability of $7 million for continued monitoring and any future remediation required by regulators in Minnesota. The estimated range of possible remediation costs for the sites for which CERC believes it may have responsibility was $4 million to $30 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 depend on the number of sites to be remediated, the participation of other PRPs, if any, and the remediation methods used.

In addition to the Minnesota sites, the EPA and other regulators have investigated MGP sites that were owned or operated by CERC or may have been owned by one of its former affiliates. CenterPoint Energy and CERC do not expect the ultimate outcome of these matters to have a material adverse effect on the financial condition, results of operations or cash flows of either CenterPoint Energy or CERC.

Asbestos. Some facilities owned by the Registrants or their predecessors in interest contain or have contained asbestos insulation and other asbestos-containing materials. The Registrants are from time to time named, along with numerous others, as defendants in lawsuits filed by a number of individuals who claim injury due to exposure to asbestos, and the Registrants anticipate that additional claims may be asserted in the future. Although their ultimate outcome cannot be predicted at this time, the Registrants do not expect these matters, either individually or in the aggregate, to have a material adverse effect on their financial condition, results of operations or cash flows.

Other Environmental. From time to time, the Registrants identify the presence of environmental contaminants during operations or on property where predecessor companies have conducted operations. Other such sites involving contaminants may be identified in the future. The Registrants have and expect to continue to remediate any identified sites consistent with state and federal legal obligations. From time to time, the Registrants have received notices, and may receive notices in the future, from regulatory authorities or others regarding status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Registrants have been, or may be, named from time to time as defendants in litigation related to such sites. Although the ultimate outcome of such matters cannot be predicted at this time, the Registrants do not expect these matters, either individually or in the aggregate, to have a material adverse effect on their financial condition, results of operations or cash flows.

Other Proceedings

The Registrants are 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. From time to time, the Registrants are also defendants in legal proceedings with respect to claims brought by various plaintiffs against broad groups of participants in the energy industry. Some of these proceedings involve substantial amounts. The Registrants regularly analyze current information and, as necessary, provide accruals for probable and reasonably estimable liabilities on the eventual disposition of these matters. The Registrants do not expect the disposition of these matters to have a material adverse effect on the Registrants' financial condition, results of operations or cash flows.

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(15) Earnings Per Share (CenterPoint Energy)

The following table reconciles numerators and denominators of CenterPoint Energy's basic and diluted earnings per share calculations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except share and per share amounts)			
Income available to common shareholders	$153	$ 169	$243	$ 496
Basic weighted average common shares outstanding	431,554,000	431,026,000	431,437,000	430,939,000
Plus: Incremental shares from assumed conversions:				
Restricted stock	3,337,000	3,060,000	3,337,000	3,060,000
Diluted weighted average common shares	434,891,000	434,086,000	434,774,000	433,999,000
Basic earnings per common share	$0.35	$ 0.39	$0.56	$ 1.15
Diluted earnings per common share	$0.35	$ 0.39	$0.56	$ 1.14

(16) Reportable Business Segments

The Registrants' determination of reportable business segments considers the strategic operating units under which the Registrants manage sales, allocate resources and assess performance of various products and services to wholesale or retail customers in differing regulatory environments. The Registrants use operating income as the measure of profit or loss for the business segments other than Midstream Investments, where equity in earnings is used.

As of September 30, 2018, reportable business segments by Registrant are as follows:

	Electric Transmission & Distribution	Natural Gas Distribution	Energy Services	Midstream Investments	Other Operations
CenterPoint Energy	X	X	X	X	X
Houston Electric	X				
CERC		X	X	(1)	X

(1) In the three months ended September 30, 2018, CERC completed the Internal Spin. Previously, CERC's equity method investment in Enable was included in the Midstream Investments segment. CERC's equity in earnings in Enable, net of basis difference amortization and income tax, has been classified as discontinued operations for all periods presented. See Note 9 for further discussion on the Internal Spin and the associated discontinued operations presentation.

Electric Transmission & Distribution consists of the electric transmission and distribution function. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers. Energy Services consists of non-rate regulated natural gas sales and services operations. Midstream Investments consists of the equity investment in Enable (excluding the Enable Series A Preferred Units). Other Operations consists primarily of other corporate operations which support all of the business operations.

Houston Electric consists of a single reportable business segment and therefore is not included in the tabular business segment presentation below. Operating income (loss) amounts for 2017 have been recast to reflect the adoption of ASU 2017-07 (see Note 2 for further information).

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Financial data for business segments is as follows:

CenterPoint Energy

	Three Months Ended September 30,					
	2018			2017		
	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)	Revenues from External Customers	Net Intersegment Revenues	Operating Income
	(in millions)					
Electric Transmission & Distribution	$897 (1)	$ —	$ 227	$843 (1)	$ —	$ 254
Natural Gas Distribution	402	8	3	390	8	25
Energy Services	910	10	(9)	861	10	7
Midstream Investments (2)	—	—	—	—	—	—
Other Operations	3	—	5	4	—	11
Eliminations	—	(18)	—	—	(18)	—
Consolidated	$2,212	$ —	$ 226	$2,098	$ —	$ 297

	Nine Months Ended September 30,					
	2018			2017		
	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)	Revenues from External Customers	Net Intersegment Revenues	Operating Income
	(in millions)					
Electric Transmission & Distribution	$2,502 (1)	$ —	$ 523	$2,234 (1)	$ —	$ 511
Natural Gas Distribution	2,032	26	166	1,767	24	235
Energy Services	3,008	57	(20)	2,964	34	58
Midstream Investments (2)	—	—	—	—	—	—
Other Operations	11	—	(5)	11	—	24
Eliminations	—	(83)	—	—	(58)	—
Consolidated	$7,553	$ —	$ 664	$6,976	$ —	$ 828

(1) CenterPoint Energy’s and Houston Electric’s Electric Transmission & Distribution revenues from major customers are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Affiliates of NRG	$213	$221	$543	$540
Affiliates of Vistra Energy Corp.	79	72	192	172

(2) CenterPoint Energy’s Midstream Investments’ equity earnings, net are as follows:

Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2018	2017	2018	2017
	(in millions)			
Enable	$81	$ 68	$208	$199

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CERC

	Three Months Ended September 30,					
	2018			2017		
	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)
	(in millions)					
Natural Gas Distribution	$402	$ 8	$ 3	$390	$ 8	$ 25
Energy Services	910	10	(9)	861	10	7
Other Operations	—	—	(1)	—	—	(1)
Eliminations	—	(18)	—	—	(18)	—
Consolidated	$1,312	$ —	$ (7)	$1,251	$ —	$ 31

	Nine Months Ended September 30,					
	2018			2017		
	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)	Revenues from External Customers	Net Intersegment Revenues	Operating Income (Loss)
	(in millions)					
Natural Gas Distribution	$2,032	$ 26	$ 166	$1,767	$ 24	$ 235
Energy Services	3,008	57	(20)	2,964	34	58
Other Operations	—	—	—	—	—	(4)
Eliminations	—	(83)	—	—	(58)	—
Consolidated	$5,040	$ —	$ 146	$4,731	$ —	$ 289

CenterPoint Energy and CERC

	Total Assets			
	September 30, 2018		December 31, 2017	
	CenterPoint Energy	CERC	CenterPoint Energy	CERC
	(in millions)			
Electric Transmission & Distribution	$10,436	$—	$10,292	$—
Natural Gas Distribution	6,557	6,557	6,608	6,608
Energy Services	1,253	1,253	1,521	1,521
Midstream Investments	2,457	—	2,472	—
Assets of discontinued operations	—	— (1)	—	2,472 (1)
Other Operations	2,206 (2)	110	2,497 (2)	70
Eliminations	(681)	(615)	(654)	(559)
Consolidated	$22,228	$7,305	$22,736	$10,112

(1) On September 4, 2018, CERC completed the Internal Spin. For further information regarding the Internal Spin, see Note 9.

(2) Includes pension and other postemployment-related regulatory assets of $566 million and $600 million, respectively, as of September 30, 2018 and December 31, 2017.

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(17) Supplemental Disclosure of Cash Flow Information

The table below provides supplemental disclosure of cash flow information:

	Nine Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Cash Payments/Receipts:						
Interest, net of capitalized interest	$301	$ 173	$ 85	$306	$ 176	$ 86
Income taxes, net	89	122	3	14	76	4
Non-cash transactions:						
Accounts payable related to capital expenditures	140	87	66	111	70	53
Capital distribution associated with the Internal Spin	—	—	1,460	—	—	—

The table below provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Balance Sheets to the amount reported in the Condensed Statements of Consolidated Cash Flows:

	September 30, 2018		December 31, 2017	
	CenterPoint Energy	Houston Electric	CenterPoint Energy	Houston Electric
	(in millions)			
Cash and cash equivalents	$293	$ 279	$ 260	$ 238
Restricted cash included in Prepaid expenses and other current assets	37	37	35	35
Restricted cash included in Other	1	1	1	1
Total cash, cash equivalents and restricted cash shown in Condensed Statements of Consolidated Cash Flows	$331	$ 317	$ 296	$ 274

CERC does not have restricted cash and therefore was not included in the table above.

(18) Related Party Transactions (Houston Electric and CERC)

Houston Electric and CERC participate in a money pool through which they can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings under CenterPoint Energy's revolving credit facility or the sale of CenterPoint Energy's commercial paper.

The table below summarizes money pool activity:

	September 30, 2018		December 31, 2017	
	Houston Electric	CERC	Houston Electric	CERC
	(in millions)			
Money pool investments (borrowings) (1)	$(75)	$ —	$(60)	$(570)
Weighted average interest rate	2.45 %	2.45 %	1.90 %	1.90 %

(1) Included in Accounts and notes receivable (payable)–affiliated companies in the Condensed Consolidated Balance Sheets.

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Houston Electric and CERC affiliate related net interest income (expense) were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC
	(in millions)							
Interest income (expense) (1)	$1	$ (2)	$1	$ —	$1	$ (4)	$ 3	$ —

(1) Interest income is included in Other, net and interest expense is included in Interest and other finance charges on the Condensed Statements of Consolidated Income.

CenterPoint Energy provides some corporate services to Houston Electric and CERC. The costs of services have been charged directly to Houston Electric and CERC using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment and proportionate corporate formulas based on operating expenses, assets, gross margin, employees and a composite of assets, gross margin and employees. Houston Electric provides certain services to CERC. These services are billed at actual cost, either directly or as an allocation and include fleet services, shop services, geographic services, surveying and right-of-way services, radio communications, data circuit management and field operations. Additionally, CERC provides certain services to Houston Electric. These services are billed at actual cost, either directly or as an allocation and include line locating and other miscellaneous services. These charges are not necessarily indicative of what would have been incurred had Houston Electric and CERC not been affiliates.

Amounts charged for these services were as follows and are included primarily in operation and maintenance expenses:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC
	(in millions)							
Corporate service charges	$47	$ 36	$41	$ 30	$138	$ 105	$127	$ 93
Net affiliate service charges (billings)	(3)	3	(1)	1	(8)	8	(6)	6

The table below presents transactions among Houston Electric, CERC and their parent, Utility Holding.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC	Houston Electric	CERC
	(in millions)							
Cash dividends paid to parent	$60	$ 75	$45	$ 89	$123	$ 286	$87	$ 337
Cash contribution from parent	—	600	—	—	—	600	—	38
Capital distribution to parent associated with the Internal Spin	—	1,460	—	—	—	1,460	—	—

(19) Equity (CenterPoint Energy)

Dividends Declared

CenterPoint Energy declared dividends for the periods presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Equity Instrument	2018	2017	2018 (1)	2017
	(per share)			
Common Stock	$0.2775	$0.2675	$0.5550	$0.8025

(1) On December 13, 2017, CenterPoint Energy's Board of Directors declared a regular quarterly cash dividend of $0.2775 per share of Common Stock, payable on March 8, 2018 to shareholders of record as of the close of business on February 15, 2018.

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Series A Preferred Stock

On August 22, 2018, CenterPoint Energy completed the issuance of 800,000 shares of its Series A Preferred Stock, at a price of $1,000 per share, resulting in net proceeds of $790 million after issuance costs. The aggregate liquidation value of the Series A Preferred Stock is $800 million with a per share liquidation value of $1,000.

CenterPoint Energy intends to use the net proceeds from the Series A Preferred Stock offering to fund a portion of the pending Merger and to pay related fees and expenses.

Dividends. The Series A Preferred Stock accrue cumulative dividends, calculated as a percentage of the stated amount per share, at a fixed annual rate of 6.125% per annum to, but excluding, September 1, 2023, and at an annual rate of three-month LIBOR plus a spread of 3.270% thereafter to be paid in cash if, when and as declared. If declared, prior to September 1, 2023, dividends are payable semi-annually in arrears on each March 1 and September 1, beginning on March 1, 2019, and, for the period commencing on September 1, 2023, dividends are payable quarterly in arrears each March 1, June 1, September 1 and December 1, beginning on December 1, 2023. Cumulative dividends accrued during the applicable periods are presented on CenterPoint Energy’s Condensed Statements of Consolidated Income as Series A Preferred Stock dividend requirement.

Optional Redemption. On or after September 1, 2023, CenterPoint Energy may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $1,000 per share, plus any accumulated and unpaid dividends thereon to, but excluding, the redemption date.

At any time within 120 days after the conclusion of any review or appeal process instituted by CenterPoint Energy, if any, following the occurrence of a ratings event, CenterPoint Energy may, at its option, redeem the Series A Preferred Stock in whole, but not in part, at a redemption price in cash per share equal to $1,020 (102% of the liquidation value of $1,000) plus an amount equal to all accumulated and unpaid dividends thereon to, but excluding, the redemption date, whether or not declared.

Ranking. The Series A Preferred Stock, with respect to anticipated dividends and distributions upon CenterPoint Energy’s liquidation or dissolution, or winding-up of CenterPoint Energy’s affairs, ranks or will rank:

- senior to Common Stock and to each other class or series of capital stock established after the initial issue date of the Series A Preferred Stock that is expressly made subordinated to the Series A Preferred Stock;

- on a parity with any class or series of capital stock established after the initial issue date of the Series A Preferred Stock that is not expressly made senior or subordinated to the Series A Preferred Stock, including the Series B Preferred Stock;

- junior to any class or series of capital stock established after the initial issue date of the Series A Preferred Stock that is expressly made senior to the Series A Preferred Stock;

- junior to all existing and future indebtedness (including indebtedness outstanding under CenterPoint Energy’s credit facilities, senior notes and commercial paper) and other liabilities with respect to assets available to satisfy claims against CenterPoint Energy; and

- structurally subordinated to any existing and future indebtedness and other liabilities of CenterPoint Energy’s subsidiaries and capital stock of CenterPoint Energy’s subsidiaries held by third parties.

Voting Rights. Holders of the Series A Preferred Stock generally will not have voting rights. Whenever dividends on shares of Series A Preferred Stock have not been declared and paid for the equivalent of three or more semi-annual or six or more quarterly dividend periods (including, for the avoidance of doubt, the dividend period beginning on, and including, the original issue date and ending on, but excluding, March 1, 2019), whether or not consecutive, the holders of such shares of Series A Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock (as defined in the Statement of Resolution for the Series A Preferred Stock) then outstanding, will be entitled at CenterPoint Energy's next annual or special meeting of shareholders to vote for the election of a total of two additional members of CenterPoint Energy's Board of Directors, subject to certain limitations. This right will terminate if and when all accumulated dividends have been paid in full and, upon such termination, the term of office of each director so elected will terminate at such time and the number of directors on CenterPoint Energy's Board of Directors will automatically decrease by two, subject to the revesting of such rights in the event of each subsequent nonpayment.

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Series B Preferred Stock

On October 1, 2018, CenterPoint Energy completed the issuance of 19,550,000 depositary shares, each representing a 1/20th interest in a share of its Series B Preferred Stock, at a price of $50 per depositary share, resulting in net proceeds of $950 million after issuance costs. The aggregate liquidation value of Series B Preferred Stock is $978 million with a per share liquidation value of $1,000. The amount issued included 2,550,000 depositary shares issued pursuant to the exercise in full of the option granted to the underwriters to purchase additional depositary shares.

CenterPoint Energy intends to use the net proceeds from the offering of depositary shares, each representing a 1/20th interest in a share of Series B Preferred Stock, to fund a portion of the pending Merger and to pay related fees and expenses.

Dividends. Dividends on the Series B Preferred Stock will be payable on a cumulative basis when, as and if declared at an annual rate of 7.00% on the liquidation value of $1,000 per share. CenterPoint Energy may pay declared dividends in cash or, subject to certain limitations, in shares of Common Stock, or in any combination of cash and shares of Common Stock on March 1, June 1, September 1 and December 1 of each year, commencing on December 1, 2018 and ending on, and including, September 1, 2021.

Acquisition Termination Redemption. If the pending Merger has not closed at or prior to close of business on April 21, 2019 or if an acquisition termination event occurs, CenterPoint Energy may, at its option, give notice of an acquisition termination redemption to the holders of the Series B Preferred Stock. If CenterPoint Energy provides such notice, then, on the acquisition termination redemption date, CenterPoint Energy will be required to redeem the Series B Preferred Stock, in whole but not in part, at a redemption amount per share of the Series B Preferred Stock equal to the acquisition termination redemption amount. CenterPoint Energy will pay the acquisition termination redemption amount in cash unless the acquisition termination share price is greater than the initial price, in which case CenterPoint Energy will instead pay the acquisition termination redemption amount by delivering shares of Common Stock and cash; provided, that CenterPoint Energy may elect, subject to certain limitations, to pay cash or deliver shares of Common Stock in lieu of these amounts. If CenterPoint Energy redeems shares of the Series B Preferred Stock held by the depositary, the depositary will redeem, on the same acquisition termination redemption date, the number of the depositary shares representing the shares of the Series B Preferred Stock so redeemed.

Mandatory Conversion. Unless earlier converted or redeemed, each share of the Series B Preferred Stock will automatically convert on the mandatory conversion date, which is expected to be September 1, 2021, into not less than 30.5820 and not more than 36.6980 shares of Common Stock, subject to certain anti-dilution adjustments. Correspondingly, the conversion rate per depositary share will be not less than 1.5291 and not more than 1.8349 shares of Common Stock, subject to certain anti-dilution adjustments. The conversion rate will be determined based on a preceding 20-day volume-weighted-average-price of Common Stock.

The following table illustrates the conversion rate per share of the Series B Preferred Stock, subject to certain anti-dilution adjustments:

Applicable Market Value of the Common Stock	Conversion Rate per Share of Series B Preferred Stock
Greater than $32.6990 (threshold appreciation price)	30.5820 shares of Common Stock
Equal to or less than $32.6990 but greater than or equal to $27.2494	Between 30.5820 and 36.6980 shares of Common Stock, determined by dividing $1,000 by the applicable market value
Less than $27.2494 (initial price)	36.6980 shares of Common Stock

The following table illustrates the conversion rate per depositary share, subject to certain anti-dilution adjustments:

Applicable Market Value of the Common Stock	Conversion Rate per Depository Share
Greater than $32.6990 (threshold appreciation price)	1.5291 shares of Common Stock
Equal to or less than $32.6990 but greater than or equal to $27.2494	Between 1.5291 and 1.8349 shares of Common Stock, determined by dividing $50 by the applicable market value
Less than $27.2494 (initial price)	1.8349 shares of Common Stock

Optional Conversion of the Holder. Other than during a fundamental change conversion period, and unless CenterPoint Energy has redeemed the Series B Preferred Stock, a holder of the Series B Preferred Stock may, at any time prior to September 1, 2021, elect to convert such holder’s shares of the Series B Preferred Stock, in whole or in part, at the minimum conversion rate of 30.5820 shares of Common Stock per share of the Series B Preferred Stock (equivalent to 1.5291 shares of Common Stock per depositary share), subject to certain anti-dilution and other adjustments. Because each depositary share represents a 1/20th fractional interest

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in a share of the Series B Preferred Stock, a holder of depositary shares may convert its depositary shares only in lots of 20 depositary shares.

Fundamental Change Conversion. If a fundamental change occurs on or prior to September 1, 2021, holders of the Series B Preferred Stock will have the right to convert their shares of the Series B Preferred Stock, in whole or in part, into shares of Common Stock at the fundamental change conversion rate during the period beginning on, and including, the effective date of such fundamental change and ending on, and including, the date that is 20 calendar days after such effective date (or, if later, the date that is 20 calendar days after holders receive notice of such fundamental change, but in no event later than September 1, 2021). Holders who convert shares of the Series B Preferred Stock during that period will also receive a make-whole dividend amount comprised of a fundamental change dividend make-whole amount, and to the extent there is any, the accumulated dividend amount. Because each depositary share represents a 1/20th fractional interest in a share of the Series B Preferred Stock, a holder of depositary shares may convert its depositary shares upon a fundamental change only in lots of 20 depositary shares.

Ranking. The Series B Preferred Stock, with respect to anticipated dividends and distributions upon CenterPoint Energy's liquidation or dissolution, or winding-up of CenterPoint Energy's affairs, ranks or will rank:

- senior to Common Stock and to each other class or series of capital stock established after the initial issue date of the Series B Preferred Stock that is expressly made subordinated to the Series B Preferred Stock;
- on a parity with the Series A Preferred Stock and any class or series of capital stock established after the initial issue date that is not expressly made senior or subordinated to the Series B Preferred Stock;
- junior to any class or series of capital stock established after the initial issue date that is expressly made senior to the Series B Preferred Stock;
- junior to all existing and future indebtedness (including indebtedness outstanding under CenterPoint Energy's credit facilities, senior notes and commercial paper) and other liabilities with respect to assets available to satisfy claims against CenterPoint Energy; and
- structurally subordinated to any existing and future indebtedness and other liabilities of CenterPoint Energy's subsidiaries and capital stock of CenterPoint Energy's subsidiaries held by third parties.

Voting Rights. Holders of the Series B Preferred Stock generally will not have voting rights. Whenever dividends on shares of the Series B Preferred Stock have not been declared and paid for six or more dividend periods (including, for the avoidance of doubt, the dividend period beginning on, and including, the initial issue date and ending on, but excluding, December 1, 2018), whether or not consecutive, the holders of such shares of Series B Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock then outstanding (as defined in the Statement of Resolution for the Series B Preferred Stock), will be entitled at CenterPoint Energy's next annual or special meeting of shareholders to vote for the election of a total of two additional members of CenterPoint Energy's Board of Directors, subject to certain limitations. This right will terminate if and when all accumulated and unpaid dividends have been paid in full and, upon such termination, the term of office of each director so elected will terminate at such time and the number of directors on CenterPoint Energy's Board of Directors will automatically decrease by two, subject to the revesting of such rights in the event of each subsequent nonpayment.

Common Stock

On October 1, 2018, CenterPoint Energy completed the issuance of approximately 69,633,027 shares of Common Stock at a price of $27.25 per share, for net proceeds of $1,844 million after issuance costs. The amount issued

included 9,082,568 shares of Common Stock issued pursuant to the exercise in full of the option granted to the underwriters to purchase additional shares of Common Stock.

CenterPoint Energy intends to use the net proceeds from the Common Stock offering to fund a portion of the pending Merger and to pay related fees and expenses.

(20) Subsequent Events (CenterPoint Energy)

CenterPoint Energy Dividend Declarations

On October 23, 2018, CenterPoint Energy’s Board of Directors declared a regular quarterly cash dividend of $0.2775 per share of Common Stock payable on December 13, 2018 to shareholders of record as of the close of business on November 15, 2018.

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On October 23, 2018, CenterPoint Energy's Board of Directors declared a regular quarterly cash dividend of $11.6667 per share of the newly issued Series B Preferred Stock ($0.5833 per depository share) payable on December 1, 2018 to shareholders of record as of the close of business on November 15, 2018. For more information about the Series B Preferred Stock, see Note 19.

Enable Distributions Declarations

On November 6, 2018, Enable declared a quarterly cash distribution of $0.318 per unit on all of its outstanding common units for the quarter ended September 30, 2018. Accordingly, CNP Midstream expects to receive a cash distribution of approximately $74 million from Enable in the fourth quarter of 2018 to be made with respect to CNP Midstream's investment in common units of Enable.

On November 6, 2018, Enable declared a quarterly cash distribution of $0.625 per Series A Preferred Unit for the quarter ended September 30, 2018. Accordingly, CenterPoint Energy expects to receive a cash distribution of approximately $9 million from Enable in the fourth quarter of 2018 to be made with respect to CenterPoint Energy's investment in Enable Series A Preferred Units.

Merger Financing Transactions

On October 1, 2018, CenterPoint Energy completed concurrent equity offerings of depositary shares, each representing a 1/20th interest in a share of Series B Preferred Stock, and Common Stock. For more information about the concurrent equity offerings, see Note 19.

On October 5, 2018, CenterPoint Energy issued $1.5 billion aggregate principal amount of senior notes. For more information about the senior notes offering, see Note 12.

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

No Registrant makes any representations as to the information related solely to CenterPoint Energy or the subsidiaries of CenterPoint Energy other than itself.

The following combined discussion and analysis should be read in combination with the Interim Condensed Financial Statements contained in this Form 10-Q and each Registrants' 2017 Form 10-K. When discussing CenterPoint Energy's consolidated financial information, it includes the results of Houston Electric and CERC, which, along with CenterPoint Energy, are collectively referred to as the Registrants. Where appropriate, information relating to a specific Registrant has been segregated and labeled as such. In this Form 10-Q, the terms "our," "we" and "us" are used as abbreviated references to CenterPoint Energy, Inc. together with its consolidated subsidiaries.

RECENT EVENTS

Pending Merger with Vectren. On April 21, 2018, CenterPoint Energy entered into the Merger Agreement. Under the terms of the Merger Agreement, CenterPoint Energy will acquire Vectren for approximately $6 billion in cash. For more information about the pending Merger, see Note 3 to the Interim Condensed Financial Statements.

Series A Preferred Stock Offering. On August 22, 2018, we completed an offering of our Series A Preferred Stock. For more information about the offering, see Note 19 to the Interim Condensed Financial Statements.

Enable Midstream Spin. On September 4, 2018, CERC completed the Internal Spin of its equity investment in Enable and Enable GP. For further information regarding the Internal Spin, see Note 9 to the Interim Condensed Financial Statements.

Concurrent Equity Offerings. On October 1, 2018, we completed concurrent equity offerings of depositary shares, each representing a 1/20th interest in a share of Series B Preferred Stock, and Common Stock. For more information about the concurrent equity offerings, see Note 19 to the Interim Condensed Financial Statements.

Senior Notes Offering. On October 5, 2018, we issued $1.5 billion aggregate principal amount of senior notes. For more information about the senior notes offering, see Note 12 to the Interim Condensed Financial Statements.

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Credit Facility. On October 5, 2018, we terminated all remaining commitments by lenders to provide the Bridge Facility, which resulted in increased aggregate commitments under our revolving credit facility. For further information, see Note 12 to the Interim Condensed Financial Statements.

Regulatory Proceedings. For details related to our pending and completed regulatory proceedings and orders related to the TCJA to date in 2018, see "—Liquidity and Capital Resources —Regulatory Matters" below.

CENTERPOINT ENERGY CONSOLIDATED RESULTS OF OPERATIONS

For information regarding factors that may affect the future results of our consolidated operations, please read "Risk Factors" in Item 1A of Part I of CenterPoint Energy's 2017 Form 10-K and "Risk Factors" in Item 1A of Part II of CenterPoint Energy's First Quarter 2018 Form 10-Q and this Form 10-Q.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except per share amounts)			
Revenues	$2,212	$2,098	$7,553	$6,976
Expenses	1,986	1,801	6,889	6,148
Operating Income	226	297	664	828
Interest and Other Finance Charges	(90)	(80)	(259)	(235)
Interest on Securitization Bonds	(16)	(18)	(46)	(58)
Equity in Earnings of Unconsolidated Affiliate, net	81	68	208	199
Other Income (Expense), net	8	—	(234)	43
Income Before Income Taxes	209	267	333	777
Income Tax Expense	51	98	85	281
Net Income	158	169	248	496
Series A Preferred Stock dividend requirement	5	—	5	—
Income Available to Common Shareholders	$153	$169	$243	$496
Basic Earnings Per Share	$0.35	$0.39	$0.56	$1.15
Diluted Earnings Per Share	$0.35	$0.39	$0.56	$1.14

Three months ended September 30, 2018 compared to three months ended September 30, 2017

We reported income available to common shareholders of $153 million ($0.35 per diluted share) for the three months ended September 30, 2018 compared to $169 million ($0.39 per diluted share) for the same period in 2017.

The decrease of $16 million in income available to common shareholders was primarily due to the following key factors:

- a $71 million decrease in operating income discussed below by segment in Results of Operations by Business Segment;
- a $10 million increase in interest expense primarily due to the amortization of Bridge Facility fees;
- an $8 million increase in losses on the underlying value of the indexed debt securities related to the ZENS included in Other Income (Expense), net shown above; and

- a $5 million increase in preferred dividend requirements on our Series A Preferred Stock.

These decreases in income available to common shareholders were partially offset by the following:

- a $47 million decrease in income tax expense due to lower net income and a reduction in the corporate income tax rate resulting from the TCJA;
- a $13 million increase in equity earnings from our investment in Enable, discussed further in Note 9 to the Interim Condensed Financial Statements;
- a $9 million decrease in non-service cost components of net periodic pension and post-retirement costs included in Other Income (Expense), net shown above;

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- a $6 million increase in gains on marketable securities included in Other Income (Expense), net shown above;
- a $2 million decrease in interest expense related to lower outstanding balances of our Securitization Bonds; and
- a $1 million increase in miscellaneous other non-operating income included in Other Income (Expense), net shown above.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

We reported income available to common shareholders of $243 million ($0.56 per diluted share) for the nine months ended September 30, 2018 compared to $496 million ($1.14 per diluted share) for the nine months ended September 30, 2017.

The decrease of $253 million in income available to common shareholders was primarily due to the following key factors:

- a $257 million increase in losses on indexed debt securities related to the ZENS included in Other Income (Expense), net shown above, resulting from a loss of $11 million from Meredith's acquisition of Time in March 2018, a loss of $242 million from AT&T's acquisition of TW in June 2018 and increased losses of $4 million in the underlying value of the indexed debt securities;
- a $164 million decrease in operating income discussed below by segment in Results of Operations by Business Segment;
- a $38 million decrease in gains on marketable securities included in Other Income (Expense), net shown above;
- a $24 million increase in interest expense due to higher outstanding other long-term debt and the amortization of Bridge Facility fees of $17 million; and
- a $5 million increase in preferred dividend requirements on our Series A Preferred Stock.

These decreases in income available to common shareholders were partially offset by the following:

- a $196 million decrease in income tax expense due to lower net income and a reduction in the corporate income tax rate resulting from the TCJA;
- a $14 million decrease in non-service cost components of net periodic pension and post-retirement costs included in Other Income (Expense), net shown above;
- a $12 million decrease in interest expense related to lower outstanding balances of our Securitization Bonds;
- a $9 million increase in equity earnings from our investment in Enable, discussed further in Note 9 to the Interim Condensed Financial Statements; and
- a $4 million increase in miscellaneous other non-operating income included in Other Income (Expense), net shown above.

Income Tax Expense

Our effective tax rate reported for the three months ended September 30, 2018 was 24% compared to 37% for the same period in 2017. The effective tax rate reported for the nine months ended September 30, 2018 was 26% compared to 36% for the same period in 2017. The lower effective tax rates for the three and nine months ended September 30, 2018 were primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate also decreased by 5% and 4%, respectively, for the three and nine months ended September 30, 2018 due to the amortization of EDIT. These decreases were partially offset by an increase to the effective tax rate of 5% for the three-month period ended September 30, 2018 as a result of the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. The effective tax rate was increased by 7% for the nine-month period ended September 30, 2018 due to state law changes and the state valuation allowance. See Note 9 to the Interim Condensed Financial Statements for further discussion on the Internal Spin. We expect our annual effective tax rate for the fiscal year ending December 31, 2018 to be approximately 24%.

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HOUSTON ELECTRIC'S MANAGEMENT'S NARRATIVE ANALYSIS
OF CONSOLIDATED RESULTS OF OPERATIONS

Houston Electric's results of operations are affected by seasonal fluctuations in the demand for electricity. Houston Electric's results of operations are also affected by, among other things, the actions of various governmental authorities having jurisdiction over rates Houston Electric charges, debt service costs, income tax expense, Houston Electric's ability to collect receivables from REPs and Houston Electric's ability to recover its regulatory assets. For more information regarding factors that may affect the future results of operations of Houston Electric's business, please read "Risk Factors" in Item 1A of Part I of Houston Electric's 2017 Form 10-K.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except throughput and customer data)			
Revenues	$897	$843	$2,506	$2,233
Expenses	670	589	1,979	1,723
Operating income	227	254	527	510
Interest and other finance charges	(32)	(32)	(101)	(97)
Interest on Securitization Bonds	(16)	(18)	(46)	(58)
Other expense, net	—	(3)	(6)	(9)
Income before income taxes	179	201	374	346
Income tax expense	36	71	78	123
Net income	$143	$130	$296	$223

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Houston Electric reported net income of $143 million for the three months ended September 30, 2018 compared to net income of $130 million for the same period in 2017.

The increase of $13 million in net income was primarily due to a $35 million decrease in income tax expense due to lower net income and a reduction in the corporate income tax rate resulting from the TCJA.

This increase in net income was partially offset by a $22 million decrease in TDU operating income as discussed below in Results of Operations by Business Segment.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Houston Electric reported net income of $296 million for the nine months ended September 30, 2018 compared to net income of $223 million for the nine months ended September 30, 2017.

The increase of $73 million in net income was primarily due to the following key factors:

- a $45 million decrease in income tax expense due to lower net income and a reduction in the corporate income tax rate resulting from the TCJA; and
-

a $32 million increase in TDU operating income resulting from a $27 million increase discussed below in Results of Operations by Business Segment and increased usage of $5 million, primarily due to a return to more normal weather, which was not offset by the weather hedge loss recorded on CenterPoint Energy.

These increases in net income were partially offset by a $4 million increase in interest expense due to higher outstanding other long-term debt.

Income Tax Expense

Houston Electric's effective tax rate reported for the three months ended September 30, 2018 was 20% compared to 35% for the same period in 2017. The effective tax rate reported for the nine months ended September 30, 2018 was 21% compared to 36% for the same period in 2017. The lower effective tax rate for the three and nine months ended September 30, 2018 was primarily

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due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate also decreased by 2% for both periods due to the amortization of EDIT.

CERC'S MANAGEMENT'S NARRATIVE ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

CERC's results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities as well as natural gas basis differentials. CERC's results of operations are also affected by, among other things, the actions of various federal, state and local governmental authorities having jurisdiction over rates CERC charges, competition in CERC's various business operations, the effectiveness of CERC's risk management activities, debt service costs and income tax expense. For more information regarding factors that may affect the future results of operations for CERC's business, please read "Risk Factors" in Item 1A of Part I of CERC's 2017 Form 10-K.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Revenues	$1,312	$1,251	$5,040	$4,731
Expenses	1,319	1,220	4,894	4,442
Operating Income (Loss)	(7)	31	146	289
Interest and other finance charges	(30)	(32)	(92)	(92)
Other expense, net	—	(4)	(5)	(13)
Income (loss) from continuing operations before income taxes	(37)	(5)	49	184
Income tax expense (benefit)	(2)	(1)	14	69
Income (loss) from continuing operations	(35)	(4)	35	115
Income from discontinued operations, net of tax	44	42	140	124
Net Income	$9	$38	$175	$239

Three months ended September 30, 2018 compared to three months ended September 30, 2017

CERC reported net income of $9 million for the three months ended September 30, 2018 compared to net income of $38 million for the same period in 2017.

The decrease of $29 million in net income was primarily due to a $38 million decrease in operating income discussed below by segment in Results of Operations by Business Segment.

The decrease to net income was partially offset by the following:

- a $4 million increase in miscellaneous other non-operating income included in Other expense, net shown above, primarily due to lower non-service cost components of net periodic postretirement costs;
- a $2 million decrease in interest expense due to lower outstanding long-term debt;
- a $2 million increase in income from discontinued operations, net of tax, discussed further in Notes 9 and 13 to the Interim Condensed Financial Statements; and
- a $1 million decrease in income tax expense due to lower income from continuing operations and a reduction in the corporate income tax rate resulting from the TCJA, partially offset by an increase in the state tax valuation allowance.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

CERC reported net income of $175 million for the nine months ended September 30, 2018 compared to net income of $239 million for the nine months ended September 30, 2017.

The decrease of $64 million in net income was primarily due to a $143 million decrease in operating income discussed below by segment in Results of Operations by Business Segment.

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The decrease to net income was partially offset by the following:

- a $55 million decrease in income tax expense due to lower income from continuing operations and a reduction in the corporate income tax rate resulting from the TCJA, partially offset by an increase in the state tax valuation allowance;

- a $16 million increase in income from discontinued operations, net of tax, discussed further in Notes 9 and 13 to the Interim Condensed Financial Statements; and

- an $8 million increase in miscellaneous other non-operating income included in Other expense, net shown above, primarily due to lower non-service cost components of net periodic postretirement costs.

Income Tax Expense - Continuing Operations

CERC's effective tax rate on the loss from continuing operations for the three months ended September 30, 2018 was 5% compared to 20% for the same period in 2017. The lower effective tax rate on the loss from continuing operations for the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate decreased by 18% due to state taxes as a result of the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. These decreases were partially offset by an increase to the effective tax rate of 15% due to the amortization of EDIT. See Note 9 to the Interim Condensed Financial Statements for further discussion on the Internal Spin.

CERC's effective tax rate reported on income from continuing operations for the nine months ended September 30, 2018 was 29% compared to 38% for the same period in 2017. The lower effective tax rate on income from continuing operations for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA. The effective tax rate also decreased by 20% due to the amortization of EDIT. These decreases were partially offset by an increase to the effective tax rate of 22% as a result of an increase in state tax rates and the establishment of a state valuation allowance on certain net operating loss deferred tax assets that are no longer expected to be utilized prior to expiration after the Internal Spin. See Note 9 to the Interim Condensed Financial Statements for further discussion on the Internal Spin.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (loss) for each business segment. Included in revenues are intersegment sales, which are accounted for as if the sales were to third parties at current market prices. See Note 16 to the Interim Condensed Financial Statements for details of business segments by Registrant.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Electric Transmission & Distribution	$227	$254	$523	$511
Natural Gas Distribution	3	25	166	235
Energy Services	(9)	7	(20)	58
Other Operations	5	11	(5)	24

Total Consolidated Operating Income	$226	$297	$664	$828

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Electric Transmission & Distribution

For information regarding factors that may affect the future results of operations of the Electric Transmission & Distribution business segment, please read "Risk Factors — Risk Factors Associated with Our Consolidated Financial Condition," "— Risk Factors Affecting Our Electric Transmission & Distribution Business" and "— Other Risk Factors Affecting Our Businesses or Our Interests in Enable Midstream Partners, LP" in Item 1A of Part I of CenterPoint Energy's 2017 Form 10-K.

The following table provides summary data of our Electric Transmission & Distribution business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except throughput and customer data)			
Revenues:				
TDU	$735	$ 729	$2,009	$ 1,944
Bond Companies	162	114	493	290
Total revenues	897	843	2,502	2,234
Expenses:				
Operation and maintenance, excluding Bond Companies	367	337	1,056	1,018
Depreciation and amortization, excluding Bond Companies	95	97	293	296
Taxes other than income taxes	59	59	180	177
Bond Companies	149	96	450	232
Total expenses	670	589	1,979	1,723
Operating Income	$227	$ 254	$523	$ 511
Operating Income:				
TDU	$214	$ 236	$480	$ 453
Bond Companies (1)	13	18	43	58
Total segment operating income	$227	$ 254	$523	$ 511
Throughput (in GWh):				
Residential	10,555	10,419	24,486	23,512
Total	27,015	26,453	70,347	67,956
Number of metered customers at end of period:				
Residential	2,188,211	2,156,624	2,188,211	2,156,624
Total	2,475,018	2,435,558	2,475,018	2,435,558

(1) Together with $3 million of interest income for each of the three and nine months ended September 30, 2018, represents the amount necessary to pay interest on the Securitization Bonds.

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Our Electric Transmission & Distribution business segment reported operating income of $227 million for the three months ended September 30, 2018, consisting of $214 million from the TDU and $13 million related to the Bond Companies. For the three months ended September 30, 2017, operating income totaled $254 million, consisting of $236 million from the TDU and $18 million related to the Bond Companies.

TDU operating income decreased $22 million, primarily due to the following key factors:

- increased operation and maintenance expenses, excluding transmission costs billed by transmission providers, of $38 million primarily due to the following:

contract services of $10 million, largely due to increased vegetation management and preventative maintenance resiliency spend;

support services of $9 million, primarily related to technology projects;

other miscellaneous operation and maintenance expenses of $9 million;

labor and benefits costs of $6 million; and

damage claims from third parties of $4 million;

- lower revenues of $22 million due to the recording of a regulatory liability and a corresponding decrease to revenue of $6 million reflecting the difference in revenues collected under existing customer rates and the revenues that would have been collected had existing rates been set using the lower corporate tax rate from the TCJA and lower revenues of $16 million due to lower transmission and distribution rate filings as a result of the TCJA; and
- higher depreciation and amortization expense, primarily because of ongoing additions to plant in service, and other taxes of $5 million.

These decreases to operating income were partially offset by the following:

- higher transmission-related revenues of $14 million, exclusive of the TCJA impact discussed above, and lower transmission costs billed by transmission providers of $8 million;
- customer growth of $9 million from the addition of over 39,000 customers;
- rate increases of $8 million related to distribution capital investments, exclusive of the TCJA impact discussed above; and
- higher equity return of $4 million, primarily related to the annual true-up of transition charges correcting for under-collections that occurred during the preceding 12 months.

Lower depreciation and amortization expenses related to AMS of $7 million were offset by a corresponding decrease in related revenues.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Our Electric Transmission & Distribution business segment reported operating income of $523 million for the nine months ended September 30, 2018, consisting of $480 million from the TDU and $43 million related to the Bond Companies. For the nine months ended September 30, 2017, operating income totaled $511 million, consisting of $453 million from the TDU and $58 million related to the Bond Companies.

TDU operating income increased $27 million, primarily due to the following key factors:

- higher equity return of $33 million, primarily related to the annual true-up of transition charges correcting for under-collections that occurred during the preceding 12 months;
- rate increases of $29 million related to distribution capital investments, exclusive of the TCJA impact discussed below;
- higher transmission-related revenues of $28 million, exclusive of the TCJA impact discussed below, and lower transmission costs billed by transmission providers of $22 million;
- customer growth of $23 million from the addition of over 39,000 customers;

- higher usage of $12 million, primarily due to a return to more normal weather; and
- increased miscellaneous revenues, including right-of-way, of $5 million.

These increases to operating income were partially offset by the following:

- increased operation and maintenance expenses, excluding transmission costs billed by transmission providers, of $60 million primarily due to the following:

support services of $17 million, primarily related to technology projects;

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other miscellaneous operation and maintenance expenses of $14 million;

contract services of $15 million, largely due to increase in vegetation management and preventative maintenance resiliency spend;

labor and benefits costs of $10 million; and

damage claims from third parties of $4 million;

- lower revenues of $53 million due to the recording of a regulatory liability and a corresponding decrease to revenue of $30 million reflecting the difference in revenues collected under existing customer rates and the revenues that would have been collected had existing rates been set using the lower corporate tax rate from the TCJA and lower revenues of $23 million due to lower transmission and distribution rate filings as a result of the TCJA; and

- higher depreciation and amortization expense, primarily because of ongoing additions to plant in service, and other taxes of $11 million.

Lower depreciation and amortization expenses related to AMS of $11 million were offset by a corresponding decrease in related revenues.

Natural Gas Distribution

For information regarding factors that may affect the future results of operations of the Natural Gas Distribution business segment, please read “Risk Factors — Risk Factors Associated with Our Consolidated Financial Condition,” “— Risk Factors Affecting Our Natural Gas Distribution and Energy Services Businesses” and “— Other Risk Factors Affecting Our Businesses or Our Interests in Enable Midstream Partners, LP” in Item 1A of Part I of CenterPoint Energy’s 2017 Form 10-K.

The following table provides summary data of our Natural Gas Distribution business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except throughput and customer data)			
Revenues	$410	$ 398	$2,058	$ 1,791
Expenses:				
Natural gas	120	117	972	742
Operation and maintenance	183	157	592	516
Depreciation and amortization	73	66	210	194
Taxes other than income taxes	31	33	118	104
Total expenses	407	373	1,892	1,556
Operating Income	$3	$ 25	$166	$ 235
Throughput (in Bcf):				
Residential	13	13	123	94
Commercial and industrial	53	50	208	189
Total Throughput	66	63	331	283
Number of customers at end of period:				
Residential	3,205,916	3,179,284	3,205,916	3,179,284

Commercial and industrial	255,244	253,041	255,244	253,041
Total	3,461,160	3,432,325	3,461,160	3,432,325

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Our Natural Gas Distribution business segment reported operating income of $3 million for the three months ended September 30, 2018 compared to $25 million for the three months ended September 30, 2017.

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Operating income decreased $22 million primarily as a result of the following key factors:

- higher operation and maintenance expenses of $25 million, primarily consisting of:

  support services expense of $7 million, primarily related to technology projects;

  contracts and services, materials and supplies and damage claims from third parties of $6 million;

  labor and benefits costs of $6 million; and

  other miscellaneous operation and maintenance expenses of $6 million;

- increased depreciation and amortization expenses of $7 million, due to ongoing additions to plant-in-service; and
- lower revenue of $6 million related to the lower corporate tax rate from the TCJA.

These decreases were partially offset by the following:

- a $6 million increase from weather and usage, driven by the timing of the decoupling mechanism in Minnesota;
- a $5 million increase in rate relief, primarily in the Texas, Arkansas, Mississippi and Minnesota jurisdictions, exclusive of the TCJA impact discussed above; and
- a $2 million increase associated with customer growth from the addition of almost 29,000 customers.

Increased operation and maintenance expenses related to energy efficiency programs of $1 million and increased gross receipts taxes of $1 million were offset by corresponding increases in the related revenues.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Our Natural Gas Distribution business segment reported operating income of $166 million for the nine months ended September 30, 2018 compared to $235 million for the nine months ended September 30, 2017.

Operating income decreased $69 million as a result of the following key factors:

- higher operation and maintenance expenses of $35 million, primarily consisting of:

  contracts and services, materials and supplies, bad debt and damage claims from third parties of $19 million;

  support services expenses of $12 million, primarily related to technology projects; and

  other miscellaneous operation and maintenance expenses of $10 million;

  which decreases were partially offset by a timing-related adjustment associated with the Texas Gulf rate order of $6 million;

- higher labor and benefits costs of $28 million, resulting primarily from the recording of regulatory assets (and a corresponding reduction in expense) to recover $16 million of prior post-retirement expenses in future rates established in the Texas Gulf rate order in 2017;

- lower revenue of $26 million, associated with the recording of a regulatory liability and a corresponding decrease to revenue in certain jurisdictions of $15 million reflecting the difference in revenues collected under existing customer rates and the revenues that would have been collected had existing rates been set using the lower corporate tax rate from the TCJA and lower filing amounts in Minnesota and south Texas of $11 million associated with the lower corporate tax rate as a result of the TCJA;

- increased depreciation and amortization expense of $16 million, primarily due to ongoing additions to plant-in-service; and

- higher other taxes of $9 million, primarily due to the 2017 Minnesota property tax refund.

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These decreases were partially offset by the following:

- rate increases of $35 million, primarily in the Texas, Minnesota and Arkansas jurisdictions, exclusive of the TCJA impact discussed above;

- an increase in non-volumetric revenues of $8 million; and

- a $6 million increase associated with customer growth from the addition of almost 29,000 customers.

Increased operation and maintenance expenses related to energy efficiency programs of $13 million and increased gross receipts taxes of $6 million were offset by corresponding increases in the related revenues.

Energy Services

For information regarding factors that may affect the future results of operations of the Energy Services business segment, please read “Risk Factors — Risk Factors Associated with Our Consolidated Financial Condition,” “— Risk Factors Affecting Our Natural Gas Distribution and Energy Services Businesses” and “— Other Risk Factors Affecting Our Businesses or Our Interests in Enable Midstream Partners, LP” in Item 1A of Part I of CenterPoint Energy’s 2017 Form 10-K.

The following table provides summary data of our Energy Services business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except throughput and customer data)			
Revenues	$920	$ 871	$3,065	$2,998
Expenses:				
Natural gas	897	839	2,998	2,865
Operation and maintenance	28	22	74	65
Depreciation and amortization	4	3	12	9
Taxes other than income taxes	—	—	1	1
Total expenses	929	864	3,085	2,940
Operating Income (Loss)	$(9)	$ 7	$(20)	$58
Timing impacts related to mark-to-market gain (loss) (1)	$1	$ 2	$(71)	$23
Throughput (in Bcf)	307	272	993	864
Approximate number of customers at end of period (2)	30,000	31,000	30,000	31,000

(1) Includes the change in unrealized mark-to-market value and the impact from derivative assets and liabilities acquired through the purchase of Continuum and AEM.

(2) Does not include approximately 67,000 and 66,000 natural gas customers as of September 30, 2018 and 2017, respectively, that are under residential and small commercial choice programs invoiced by their host utility.

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Our Energy Services business segment reported an operating loss of $9 million for the three months ended September 30, 2018 compared to operating income of $7 million for the three months ended September 30, 2017.

Operating income decreased $16 million as a result of the following key factors:

- a $9 million decrease in margin due to reduced opportunities to optimize natural gas supply costs and timing impacts related to natural gas storage activity, which offset favorable margins from incremental sales volumes. Lower storage balances resulting from first quarter storage activity reduced opportunities to optimize natural gas supply costs in the third quarter;

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- a $6 million increase in operation and maintenance expenses, primarily due to higher legal, technology and support services expenses; and
- a $1 million decrease from mark-to-market accounting for derivatives associated with certain natural gas purchases and sales used to lock in economic margins.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Our Energy Services business segment reported an operating loss of $20 million for the nine months ended September 30, 2018 compared to operating income of $58 million for the nine months ended September 30, 2017.

Operating income decreased $78 million as a result of the following key factors:

- a $94 million decrease from mark-to-market accounting for derivatives associated with certain natural gas purchases and sales used to lock in economic margins; and
- a $9 million increase in operation and maintenance expenses, attributable to increased technology expenses, higher contract and services expense related to pipeline integrity testing, higher support services and legal expenses.

These decreases were partially offset by a $25 million increase in margin due to increased opportunities to optimize natural gas supply costs through storage and transportation capacity, primarily in the first quarter of 2018, and incremental volumes from customers. Realized commercial opportunities attributable to the Continuum and AEM acquisitions and colder than normal weather in several regions of the United States, primarily in the first quarter of 2018, drove incremental sales volumes.

Midstream Investments (CenterPoint Energy)

For information regarding factors that may affect the future results of operations of the Midstream Investments business segment, please read “Risk Factors — Risk Factors Affecting Our Interests in Enable Midstream Partners, LP” and “— Other Risk Factors Affecting Our Businesses or Our Interests in Enable Midstream Partners, LP” in Item 1A of Part I of CenterPoint Energy’s 2017 Form 10-K.

The following table provides pre-tax equity income of the Midstream Investments business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Equity earnings from Enable, net	$81	$ 68	$208	$199

Other Operations

The following table shows the operating income (loss) of CenterPoint Energy’s Other Operations business segment:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2018	2017	2018	2017
	(in millions)			
Revenues	$3	$4	$11	$11
Expenses	(2)	(7)	16	(13)
Operating Income (Loss)	$5	$11	$(5)	$24

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Our Other Operations business segment reported operating income of $5 million for the three months ended September 30, 2018 compared to operating income of $11 million for the three months ended September 30, 2017. Operating income decreased $6 million, primarily due to costs related to the Merger.

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Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Our Other Operations business segment reported an operating loss of $5 million for the nine months ended September 30, 2018 compared to operating income of $24 million for the nine months ended September 30, 2017. Operating income decreased $29 million, primarily due to costs related to the Merger.

The following table shows the operating income (loss) of CERC's Other Operations business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Revenues	$—	$—	$ —	$ —
Expenses	1	1	—	4
Operating Income (Loss)	$(1)	$(1)	$ —	$ (4)

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on the Registrants' future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Future Earnings" in Item 7 of Part II of CenterPoint Energy's 2017 Form 10-K, "Risk Factors" in Item 1A of Part I of each of the Registrants' 2017 Form 10-K and in Item 1A of Part II of CenterPoint Energy's First Quarter 2018 Form 10-Q and "Cautionary Statement Regarding Forward-Looking Information" in this Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

Historical Cash Flows

The following table summarizes the net cash provided by (used in) operating, investing and financing activities:

	Nine Months Ended September 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Cash provided by (used in):						
Operating activities	$1,679	$ 788	$850	$1,028	$ 567	$312
Investing activities	(674)	(663)	(359)	(897)	(569)	(280)
Financing activities	(970)	(82)	(502)	(279)	(139)	(32)

Operating Activities. The following items contributed to increased (decreased) net cash provided by operating activities for the nine months ended September 30, 2018 compared to the same period of 2017:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Changes in net income after adjusting for non-cash items	$146	$ 230	$(121)
Changes in working capital	352	(28)	490
Change in equity in earnings from Enable, net of distributions (1)	184	—	—

Changes related to discontinued operations	—	—	176
Higher pension contribution	(21)	—	—
Other	(10)	19	(7)
	$651	$ 221	$538

(1) This change is partially offset by the change in distributions from Enable in excess of cumulative earnings in investing activities noted in the table below.

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Investing Activities. The following items contributed to (increased) decreased net cash used in investing activities for the nine months ended September 30, 2018 compared to the same period of 2017:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Proceeds from the sale of marketable securities	$398	$ —	$ —
AEM acquisition in 2017	132	—	132
Higher capital expenditures	(127)	(75)	(38)
Net change in notes receivable from unconsolidated affiliates	—	(29)	—
Change in distributions from Enable in excess of cumulative earnings	(193)	—	—
Changes related to discontinued operations	—	—	(176)
Other	13	10	3
	$223	$ (94)	$ (79)

Financing Activities. The following items contributed to (increased) decreased net cash used in financing activities for the nine months ended September 30, 2018 compared to the same period of 2017:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Net changes in commercial paper outstanding	$(1,123)	$ —	$(760)
Increased proceeds from issuance of Series A Preferred Stock	790		
Net changes in long-term debt outstanding, excluding commercial paper	130	79	301
Net changes in debt issuance costs	(23)	(1)	(1)
Net changes in short-term borrowings	(52)	—	(52)
Distributions to ZENS note holders	(398)	—	—
Increased payment of Common Stock dividends	(14)	—	—
Net change in notes payable from affiliated companies	—	15	(570)
Contribution from parent	—	—	562
Dividend to parent	—	(36)	51
Other	(1)	—	(1)
	$(691)	$ 57	$(470)

Future Sources and Uses of Cash

The liquidity and capital requirements of the Registrants, other than in connection with the pending Merger with Vectren (see Note 3 to the Interim Condensed Financial Statements), are affected primarily by results of operations, capital expenditures, debt service requirements, tax payments, working capital needs and various regulatory actions. Capital expenditures are expected to be used for investment in infrastructure for electric transmission and distribution operations and natural gas distribution operations. These capital expenditures are anticipated to maintain reliability and safety, increase resiliency and expand our systems through value-added projects. In addition to dividend payments on CenterPoint Energy's Series A Preferred Stock, Series B Preferred Stock and Common Stock, and in addition to interest payments on debt, the Registrants' principal anticipated cash requirements for the remaining three months of 2018 include the following:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Estimated capital expenditures (1)	$538	$ 280	$ 232
Maturing collateralized pollution control bonds	50	—	—
Scheduled principal payments on Securitization Bonds	66	66	—

(1) Represents remaining capital expenditures based on anticipated 2018 capital expenditures as previously disclosed in CenterPoint Energy's 2017 Form 10-K.

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The Registrants expect that anticipated cash needs for the remaining three months of 2018 will be met with borrowings under their credit facilities, proceeds from the issuance of long-term debt, anticipated cash flows from operations, with respect to CenterPoint Energy and CERC, proceeds from commercial paper and with respect to CenterPoint Energy, distributions from Enable. In addition, if CenterPoint Energy decides to sell all or a portion of the Enable common units that it owns in the public equity markets or otherwise in 2018 (reducing the amount of future distributions CenterPoint Energy receives from Enable to the extent of any such sales), any net proceeds received from such sales could provide a source for CenterPoint Energy's remaining 2018 cash needs. Discretionary financing or refinancing may result in the issuance of equity securities of CenterPoint Energy or debt securities of the Registrants in the capital markets or the arrangement of additional credit facilities or term bank loans. Issuances of equity or debt in the capital markets, funds raised in the commercial paper markets, additional credit facilities and any sales of CenterPoint Energy's Enable common units may not, however, be available on acceptable terms.

For more information on CenterPoint Energy's completed financing transactions for the pending Merger, see Notes 12 and 19 to the Interim Condensed Financial Statements.

Off-Balance Sheet Arrangements

Other than Houston Electric's first mortgage bonds and general mortgage bonds issued as collateral for tax-exempt long-term debt of CenterPoint Energy as discussed below and operating leases, we have no off-balance sheet arrangements.

Regulatory Matters

Brazos Valley Connection Project (CenterPoint Energy and Houston Electric)

Houston Electric completed construction on and energized the Brazos Valley Connection in March 2018, ahead of the original June 1, 2018 energization date. The final capital costs of the project were approximately $285 million, which was within the estimated range of approximately $270-$310 million in the PUCT's original order. Houston Electric applied for interim recovery of project costs through July 31, 2018 not already included in rates in a filing with the PUCT in September 2018 and is expected to receive approval for interim recovery in November 2018. Final approval by the PUCT of the project costs will occur in Houston Electric's next base rate case.

Freeport Master Plan Project (CenterPoint Energy and Houston Electric)

In April 2017, Houston Electric submitted a proposal to ERCOT requesting its endorsement of a transmission project in the greater Freeport, Texas area, which includes enhancements to two existing substations and the construction of a new 345 kV double-circuit line to be located in the counties of Brazoria, Matagorda and Wharton. On December 12, 2017, Houston Electric received approval from ERCOT. In September 2018, Houston Electric filed a certificate of convenience and necessity application with the PUCT that included capital cost estimates for the project that ranged from approximately $482-$695 million, which were higher than the initial cost estimates. The revised project cost estimates include additional costs associated with the routing of the line to mitigate environmental and other land use impacts and structure design to address soil and coastal wind conditions. The actual capital costs of the project will depend on those factors as well as other factors, including land acquisition costs, construction costs and the ultimate route approved by the PUCT. On the request of the PUCT, ERCOT has intervened in the proceeding and is in the process of reviewing the cost-effectiveness of the proposed project. Houston Electric anticipates that the PUCT will issue a final decision on the certificate of convenience and necessity application as early as the third quarter of 2019.

Rate Change Applications

Houston Electric and CERC are routinely involved in rate change applications before state regulatory authorities. Those applications include general rate cases, where the entire cost of service of the utility is assessed and reset. In addition, Houston Electric is periodically involved in proceedings to adjust its capital tracking mechanisms (TCOS and DCRF) and annually files to adjust its EECRF. CERC is periodically involved in proceedings to adjust its capital tracking mechanisms in Texas (GRIP), its cost of service adjustments in Arkansas, Louisiana, Mississippi and Oklahoma (FRP, RSP, RRA and PBRC, respectively), its decoupling mechanism in Minnesota, and its energy efficiency cost trackers in Arkansas, Minnesota, Mississippi and Oklahoma (EECR, CIP, EECR and EECR, respectively). The table below reflects significant applications pending or completed since our 2017 Form 10-K was filed with the SEC.

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Mechanism	Annual Increase (Decrease) (1) (in millions)	Filing Date	Effective Date	Approval Date	Additional Information
Houston Electric (PUCT)					
TCOS	N/A	February 2018	April 2018	April 2018	Revised TCOS annual revenue application approved in November 2017 by a reduction of $41.6 million to recognize decrease in the federal income tax rate, amortize certain EDIT balances and adjust rate base by EDIT attributable to new plant since the last rate case, all of which are related to the TCJA.
TCOS	$40.8	May 2018	July 2018	July 2018	Requested an increase of $285 million to rate base and reflects a $40.8 million annual increase in current revenues. Also reflects a one-time refund of $6.6 million in excess federal income tax collected from January to April 2018.
TCOS	2.4	September 2018	TBD	TBD	Requested an increase of $15.4 million to rate base and reflects a $2.4 million annual increase in current revenues.
EECRF	8.4	June 2018	TBD	TBD	Revised application requests recovery of 2019 EECRF of $41.7 million, including a $8.4 million performance bonus.
DCRF	30.9	April 2018	September 2018	August 2018	Unanimous settlement agreement approved by the PUCT in August 2018 results in incremental annual revenue of $30.9 million. It results in a $120.6 million annual revenue requirement effective September 1, 2018. The settlement agreement also reflects an approximately $39 million decrease in the federal income tax rate, a $20 million decrease to return to customers the reserve recorded recognizing this decrease in the federal income tax rate from January 25, 2018 through August 31, 2018 and a $19.2 million decrease related to the unprotected EDIT. Effective September 1, 2019, the reserve amount returned to customers ends. In December 2018, Houston Electric will file an updated DCRF tariff to adjust the interim DCRF rates to reflect any difference between the $20 million estimated tax-expense regulatory liability and the actual tax-expense regulatory liability recorded by Houston Electric.
CERC - South Texas (Railroad Commission)					
Rate Case	(1.0)	November 2017	May 2018	May 2018	Unanimous settlement agreement approved by the Railroad Commission in May 2018 that provides for a $1 million annual decrease in current revenues. The settlement agreement also reflects an approximately $2 million decrease in the federal income tax rate and amortization of certain EDIT balances and

					establishes a 9.8% ROE for future GRIP filings for the South Texas jurisdiction.
CERC - Beaumont/East Texas, Houston and Texas Coast (Railroad Commission)					
GRIP	14.7	March 2018	July 2018	June 2018	Based on net change in invested capital of $70.0 million and reflects a $14.7 million annual increase in current revenues. Also reflects an approximately $1.0 million decrease in the federal income tax rate.
Administrative 104.111	N/A	July 2018	September 2018	August 2018	Beaumont/East Texas, Houston and Texas Coast proposed to decrease base rates by $12.9 million to reflect the change in the federal income tax rate. In addition, Beaumont/East Texas proposed to decrease the GRIP charge to reflect the change in the federal income tax rate. The impact of deferred taxes is expected to be reflected in the next rate case.
CERC - Arkansas (APSC)					
FRP	13.2	August 2018	October 2018	September 2018	Based on ROE of 9.5% as approved in the last rate case and reflects a $13.2 million annual increase in current revenues, excluding the effects of the recently enacted TCJA. With TCJA impacts considered, the annual increase is reduced by approximately $8.1 million, which include the effects of a lower federal income tax rate and amortization of EDIT balances.
CERC - Louisiana (LPSC)					
RSP	6.6	September 2018	December 2018	TBD	Based on ROE of 9.95% and the 21% federal income tax rate and reflects a $6.6 million annual increase in current revenues. Other impacts of the TCJA, which were calculated outside the band, reduce the annual increase by approximately $4.3 million.

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Mechanism	Annual Increase (Decrease) (1) (in millions)	Filing Date	Effective Date	Approval Date	Additional Information
CERC - Minnesota (MPUC)					
Rate Case	3.9	August 2017	November 2018	July 2018	Includes a proposal to extend decoupling beyond current expiration date of June 2018. Interim rates reflecting an annual increase of $47.8 million were effective October 1, 2017. A unanimous settlement agreement was filed in March 2018, subject to MPUC approval. The settlement agreement increases base rates by $3.9 million, makes decoupling a permanent part of the tariff, incorporates the impact of the decrease in the federal income tax rate and amortization of EDIT balances (approximately $20 million) and establishes or continues tracker recovery mechanisms that account for approximately $13.3 million in the initial filing. The MPUC voted to approve the settlement and a formal order was issued on July 20, 2018. Final rates (and the refund of interim rates that exceed final rates) will be implemented beginning November 1, 2018.
Decoupling	(13.8)	September 2018	September 2018	TBD	Represents revenue over-recovery of $21.9 million recorded for and during the period July 1, 2017 through June 30, 2018 offset by the rate and prior period adjustments totaling $8.1 million recorded in third quarter 2018.
CIP	12.5	May 2018	September 2018	September 2018	Annual reconciliation filing for program year 2017 and includes performance bonus of $12.5 million which was recorded in September 2018.
CERC - Mississippi (MPSC)					
RRA	3.2	May 2018	November 2018	November 2018	Based on authorized ROE of 9.144% and a capital structure of 50% debt and 50% equity and reflects a $3.2 million annual increase in revenues.
CERC - Oklahoma (OCC)					
PBRC	5.4	March 2018	October 2018	October 2018	Based on ROE of 10% and reflects a $5.4 million annual increase in revenues. As a result of the final order, all EDIT was removed from the PBRC calculation. Protected EDIT amortization will begin to be refunded in April 2019 via one-time annual bill credits. Unprotected EDIT will be refunded over a five-year period via annual bill credits beginning in October 2018.

(1) Represents proposed increases (decreases) when effective date and/or approval date is not yet determined. Approved rates could differ materially from proposed rates.

Tax Reform

For Houston Electric and CERC's NGD, federal income tax expense is included in the rates approved by state commissions and local municipalities and charged by those utilities to consumers. As Houston Electric and NGD file general rate cases and other periodic rate adjustments, the impacts of the TCJA (including the lower tax rate and the calculation and amortization of EDIT), along with other increases and decreases in our revenue requirements, will be incorporated into Houston Electric's and NGD's future rates as allowed by IRS rules. The effect of any potential return of tax savings resulting from the TCJA to consumers may differ depending on how each regulatory body requires us to return such savings. Regulatory commissions across most of Houston Electric's and NGD's jurisdictions have issued accounting orders to track or record a regulatory liability for (1) the difference between revenues collected under existing rates and revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates and (2) the balance of EDIT that now exists because of the reduction in federal income tax rates.

On January 25, 2018, the PUCT issued an accounting order in Project No. 47945 directing electric utilities, including Houston Electric, to record as a regulatory liability (1) the difference between revenues collected under existing rates and revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates and (2) the balance of EDIT that now exists because of the reduction in federal income tax rates. On February 13, 2018, Houston Electric and other likely parties to a future rate case announced a settlement that requires Houston Electric to make (i) a TCOS filing by February 20, 2018 to reflect the change in the federal income tax rate for Houston Electric's transmission rate base through July 31, 2017 and account for certain EDIT (and such filing was timely submitted), (ii) a DCRF filing in April 2018 to reflect the change in the federal income tax rate for Houston Electric's distribution rate base through December 31, 2017 (and such filing was timely submitted) and (iii) a full rate case filing by April 30, 2019. The settlement was presented to the PUCT during its open meeting on February 15, 2018. In response to the settlement, the PUCT did not proceed with a prior proposal to require Houston Electric to file a rate case in the summer of 2018. The PUCT also amended its prior accounting order to remove the requirement that utilities include carrying costs in the new regulatory liability. Additional information related to tax reform for Houston Electric is described in the table above.

On January 12, 2018, the APSC issued an order in Docket No. 18-006-U opening an investigatory docket into the TCJA and directing utilities, including CERC, to record as a regulatory liability the current and deferred impacts of the TCJA. On July 26, 2018, the APSC issued an order in the investigatory docket requiring CERC to (1) include the reduction in tax expense due to the

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January 1, 2018 change in the tax rate from 35% to 21% in the utility's FRP as a reduction to the revenue requirement; this reduction will be reflected in the utility's historical year netting process in the 2019 FRP filing; (2) file and include all unprotected EDIT, including plant-related unprotected EDIT, in a separate rider within 30 days and refund the entire balance before December 31, 2019; (3) include protected EDIT in the FRP and amortize such amount using the ARAM method; and (4) adjust all other riders impacted by the TCJA changes and apply carrying charges calculated using the pre-tax cost of capital of 6.44% for the amounts related to the TCJA within 30 days of the July 26, 2018 order. On August 24, 2018 CERC filed Rider TCJA in Docket No. 18-050-TF. This rider returns the entire unprotected excess ADIT of approximately $19 million over five months from October 2018 through February 2019. The GMES Rider, which is not currently in effect, was revised to reflect the effects of the TCJA. No other riders were impacted. On September 21, 2018, the APSC approved Rider TCJA as filed, with an effective date of October 1, 2018.

On October 5, 2018, the LPSC Staff filed its Final Report and Recommended Proposed Rule in Docket No. R-34754, which addresses the TCJA. The proposed rule recommends that CERC (1) adjust rates prospectively to reflect the new 21% federal corporate income tax rate; (2) refund to ratepayers 100% of federal corporate income taxes collected that are in excess of the new lower applicable tax rate plus carrying cost at the utility's WACC over a 12-month period or other period approved by the LPSC; (3) accrue carrying charges on EDIT balances at the utility's WACC until fully amortized, except to the extent ratepayers are receiving benefits of EDIT as a reduction to rate base; (4) amortize protected EDIT over ARAM and implement through an outside-the-band reduction in rates attributable to the annual amortization; and (5) amortize unprotected EDIT over 24 months or other period approved by the LPSC and implement through an outside-the-band reduction in rates or special tax rider. The LPSC Staff presented this proposed rule to the LPSC for vote at the October 26, 2018 Business & Executive Session. The anticipated implementation date for these TCJA related changes begins December 26, 2018, concurrent with the RSP implementation, with the time frame of the return of unprotected EDIT still to be determined.

On November 6, 2018, within the order approving the 2018 Mississippi RRA, the MPSC ruled that protected EDIT will be amortized over ARAM beginning with the 2019 RRA, unprotected EDIT will be amortized over a three-year period beginning December 1, 2018, and the refund due to the change in tax rate for 2018 billings prior to the 2018 RRA implementation will be a component of the 2019 RRA filing for the 2018 calendar year.

FERC Revised Policy Statement and NOPR (CenterPoint Energy and CERC)

On March 15, 2018, the FERC addressed treatment of federal income tax allowances in FERC-regulated pipeline rates. The FERC issued a Revised Policy Statement stating that it will no longer permit pipelines organized as MLPs to recover an income tax allowance in their cost-of-service rates. The FERC issued the Revised Policy Statement in response to a remand from the U.S. Court of Appeals for the D.C. Circuit in United Airlines v. FERC. On July 18, 2018, the FERC issued an order denying requests for rehearing of its Revised Policy Statement because it is a non-binding policy and parties will have the opportunity to address the policy as applied in future cases. Accordingly, the impacts that such changes may have on the rates Enable can charge for transportation services are unknown at this time.

On March 15, 2018, the FERC also proposed, in a NOPR, the method by which it would apply the Revised Policy Statement to FERC-jurisdictional natural gas pipeline rates, as well as account for the corporate income tax rate reduction in the TCJA. On July 18, 2018, the FERC issued a final rule requiring FERC-regulated natural gas pipelines that have cost-based rates to make a filing providing certain cost and revenue information and then either propose to reduce or support current cost-based rates, or take no further action. The final rule is currently subject to requests for rehearing. Enable Gas Transmission, LLC, an Enable subsidiary and owner of a FERC-regulated interstate natural gas pipeline, made its required filing on October 11, 2018, in which it asserted that no rate reduction is warranted. That filing remains subject to FERC review. Enable's other interstate pipeline subsidiary, Enable Mississippi River

Transmission, LLC, is not required to make such a filing as it is engaged in an ongoing rate case. At this time, we cannot predict the outcome of the final rule on Enable, but it could adversely impact the rates Enable is permitted to charge its customers.

Other Matters

Credit Facilities

The Registrants may draw on their respective revolving credit facilities from time to time to provide funds used for general corporate and limited liability company purposes, including to backstop CenterPoint Energy's and CERC's commercial paper programs. The facilities may also be utilized to obtain letters of credit. For further details related to the Registrants' revolving credit facilities, please see Note 12 to the Interim Condensed Financial Statements.

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As of October 22, 2018, the Registrants had the following facilities:

Registrant	Size of Facility		Amount Utilized (1)		Termination Date
(in millions)					
CenterPoint Energy	$ 3,300	(2)	$ 6	(3)	March 3, 2022
Houston Electric	300		4	(3)	March 3, 2022
CERC Corp.	900		26	(4)	March 3, 2022

(1) Based on the consolidated debt to capitalization covenant in our revolving credit facility and the revolving credit facility of each of Houston Electric and CERC Corp., we would have been permitted to utilize the full capacity of such revolving credit facilities, which currently aggregate $4.5 billion.

(2) Pursuant to the amendment entered into in May 2018, the aggregate commitments under the CenterPoint Energy revolving credit facility increased to $3.3 billion on October 5, 2018 due to the satisfaction of certain conditions, including the termination of the Bridge Facility. For further information, see Note 12 to the Interim Condensed Financial Statements.

(3) Represents outstanding letters of credit.

(4) Represents outstanding commercial paper of $25 million and outstanding letters of credit of $1 million.

Borrowings under each of the three revolving credit facilities are subject to customary terms and conditions. However, there is no requirement that the borrower makes representations prior to borrowing as to the absence of material adverse changes or litigation that could be expected to have a material adverse effect. Borrowings under each of the revolving credit facilities are subject to acceleration upon the occurrence of events of default that we consider customary. The revolving credit facilities also provide for customary fees, including commitment fees, administrative agent fees, fees in respect of letters of credit and other fees. In each of the three revolving credit facilities, the spread to LIBOR and the commitment fees fluctuate based on the borrower's credit rating. The borrowers are currently in compliance with the various business and financial covenants in the three revolving credit facilities.

Long-term Debt

In February 2018, Houston Electric issued $400 million aggregate principal amount of general mortgage bonds. In March 2018, CERC Corp. issued $600 million aggregate principal amount of unsecured senior notes. In October 2018, CenterPoint Energy issued $1.5 billion aggregate principal amount of unsecured senior notes. For further information about our 2018 debt issuances, see Note 12 to the Interim Condensed Financial Statements.

As of September 30, 2018, Houston Electric's outstanding first mortgage bonds and general mortgage bonds aggregated approximately $3.4 billion, of which $118 million is not reflected in its consolidated financial statements because of the contingent nature of the obligation.

The lien of the general mortgage indenture is junior to that of the mortgage pursuant to which the first mortgage bonds are issued. Houston Electric may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately $4.2 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of September 30, 2018. Houston Electric has contractually agreed that it will not issue additional first mortgage bonds, subject to certain exceptions.

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Houston Electric's long-term debt consists of its obligations and the obligations of its subsidiaries, including Securitization Bonds issued by its wholly-owned subsidiaries. As of September 30, 2018, the Bond Companies had the following aggregate principal amount, exclusive of debt issuance costs, of Securitization Bonds outstanding.

Company	Aggregate Principal Amount Outstanding
	(in millions)
Bond Company II	$ 208
Bond Company III	85
Bond Company IV	955
Restoration Bond Company	256
Total	$ 1,504

The Securitization Bonds are paid through the imposition of "transition" or "system restoration" charges, as defined in the Texas Public Utility Regulatory Act, which are irrevocable, non-bypassable charges to provide recovery of authorized qualified costs. The Securitization Bonds are reported as our long-term debt, although the holders of these bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition or system restoration charges) of the Bond Companies. Houston Electric has no payment obligations with respect to the Securitization Bonds except to remit collections of transition and system restoration charges as set forth in servicing agreements between Houston Electric and the Bond Companies and in an intercreditor agreement among Houston Electric, the Bond Companies and other parties.

Securities Registered with the SEC

On January 31, 2017, the Registrants filed a joint shelf registration statement with the SEC, as amended on September 24, 2018, registering indeterminate principal amounts of Houston Electric's general mortgage bonds, CERC Corp.'s senior debt securities and CenterPoint Energy's senior debt securities and junior subordinated debt securities and an indeterminate number of CenterPoint Energy's shares of Common Stock, shares of preferred stock, depositary shares, as well as stock purchase contracts and equity units. The joint shelf registration statement will expire on January 31, 2020. For information related to debt and equity security issuances in 2018, see Notes 12 and 19 to the Interim Condensed Financial Statements.

Temporary Investments

As of October 22, 2018, the Registrants had $4.2 billion temporary external investments.

Money Pool (Houston Electric and CERC)

We have a money pool through which the holding company and participating subsidiaries can borrow or invest on a short-term basis. CNP Midstream cannot borrow from the money pool but can invest in it. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings under our revolving credit facility or the sale of our commercial paper. The money pool may not provide sufficient funds to meet our subsidiaries' cash needs. As of October 22, 2018, Houston Electric had borrowings from the money pool of $79 million, and CERC had investments in the money pool of $38 million.

Impact on Liquidity of a Downgrade in Credit Ratings

The interest on borrowings under the Registrants' credit facilities is based on their credit ratings. On September 4, 2018, Moody's revised its rating outlook on CERC senior debt to positive from stable and upgraded its rating to Baa1 from Baa2. On September 6, 2018, Fitch revised its rating outlook on CERC senior debt to stable from positive and upgraded its rating to BBB+ from BBB. As of October 22, 2018, Moody's, S&P and Fitch had assigned the following credit ratings to senior debt of the Registrants:

	Moody's		S&P		Fitch	
Company/Instrument	Rating	Outlook (1)	Rating	CreditWatch (2)	Rating	Outlook (3)
CenterPoint Energy Senior Unsecured Debt	Baa1	Negative	BBB+	Negative	BBB	Stable
Houston Electric Senior Secured Debt	A1	Stable	A	Negative	A+	Stable
CERC Corp. Senior Unsecured Debt	Baa1	Positive	A-	Negative	BBB+	Stable

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(1) A Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term.

(2) An S&P CreditWatch assesses the potential direction of a short-term or long-term credit rating.

(3) A Fitch rating outlook indicates the direction a rating is likely to move over a one- to two-year period.

We cannot assure that the ratings set forth above 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 included for informational purposes and 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 could increase borrowing costs under the Registrants' revolving credit facilities. If the Registrants' credit ratings had been downgraded one notch by each of the three principal credit rating agencies from the ratings that existed as of September 30, 2018, the impact on the borrowing costs under the three revolving credit facilities would have been immaterial. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and could negatively impact the Registrants' ability to complete capital market transactions and to access the commercial paper market. Additionally, a decline in credit ratings could increase cash collateral requirements and reduce earnings of CenterPoint Energy's and CERC's Natural Gas Distribution and Energy Services business segments.

CES, a wholly-owned subsidiary of CERC Corp. operating in our Energy Services business segment, provides natural gas sales and services primarily to commercial and industrial customers and electric and natural gas utilities throughout the United States. To economically hedge its exposure to natural gas prices, CES uses derivatives with provisions standard for the industry, including those pertaining to credit thresholds. Typically, the credit threshold negotiated with each counterparty defines the amount of unsecured credit that such counterparty will extend to CES. To the extent that the credit exposure that a counterparty has to CES at a particular time does not exceed that credit threshold, CES is not obligated to provide collateral. Mark-to-market exposure in excess of the credit threshold is routinely collateralized by CES. Similarly, mark-to-market exposure offsetting and exceeding the credit threshold may cause the counterparty to provide collateral to CES. As of September 30, 2018, the amount posted by CES as collateral aggregated approximately $41 million. Should the credit ratings of CERC Corp. (as the credit support provider for CES) fall below certain levels, CES would be required to provide additional collateral up to the amount of its previously unsecured credit limit. We estimate that as of September 30, 2018, unsecured credit limits extended to CES by counterparties aggregated $268 million, and none of such amount was utilized.

Pipeline tariffs and contracts typically provide that if the credit ratings of a shipper or the shipper's guarantor drop below a threshold level, which is generally investment grade ratings from both Moody's and S&P, cash or other collateral may be demanded from the shipper in an amount equal to the sum of three months' charges for pipeline services plus the unrecouped cost of any lateral built for such shipper. If the credit ratings of CERC Corp. decline below the applicable threshold levels, CERC Corp. might need to provide cash or other collateral of as much as $185 million as of September 30, 2018. The amount of collateral will depend on seasonal variations in transportation levels.

ZENS and Securities Related to ZENS (CenterPoint Energy)

If our creditworthiness were to drop such that ZENS holders thought our liquidity was adversely affected or the market for the ZENS were to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the shares of ZENS-Related

Securities that we own or from other sources. We own shares of ZENS-Related Securities equal to approximately 100% of the reference shares used to calculate our obligation to the holders of the ZENS. ZENS exchanges result in a cash outflow because tax deferrals related to the ZENS and ZENS-Related Securities shares would typically cease when ZENS are exchanged or otherwise retired and ZENS-Related Securities shares are sold. The ultimate tax liability related to the ZENS continues to increase by the amount of the tax benefit realized each year, and there could be a significant cash outflow when the taxes are paid as a result of the retirement of the ZENS. If all ZENS had been exchanged for cash on September 30, 2018, deferred taxes of approximately $410 million would have been payable in 2018. If all the ZENS-Related Securities had been sold on September 30, 2018, capital gains taxes of approximately $109 million would have been payable in 2018. For additional information about ZENS, see Note 11 to the Interim Condensed Financial Statements.

Cross Defaults

Under CenterPoint Energy's revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness for borrowed money and certain other specified types of obligations (including guarantees) exceeding

$125 million by it or any of its significant subsidiaries will cause a default. A default by CenterPoint Energy would not trigger a default under its subsidiaries' debt instruments or revolving credit facilities.

Possible Acquisitions, Divestitures and Joint Ventures

From time to time, we consider the acquisition or the disposition of assets or businesses or possible joint ventures, strategic initiatives or other joint ownership arrangements with respect to assets or businesses. Any determination to take action in this regard will be based on market conditions and opportunities existing at the time, and accordingly, the timing, size or success of any efforts and the associated potential capital commitments are unpredictable. We may seek to fund all or part of any such efforts with proceeds from debt and/or equity issuances. Debt or equity financing may not, however, be available to us at that time due to a variety of events, including, among others, maintenance of our credit ratings, industry conditions, general economic conditions, market conditions and market perceptions.

Enable Midstream Partners (CenterPoint Energy and CERC)

In September 2018, CERC completed the Internal Spin, after which CERC's equity investment in Enable met the criteria for discontinued operations classification. As a result, the operations have been classified as Income from discontinued operations, net of tax, in CERC's Condensed Statements of Consolidated Income for the periods presented. For further information, see Note 9 to the Interim Condensed Financial Statements.

CenterPoint Energy receives quarterly cash distributions from Enable on its common units and Enable Series A Preferred Units. A reduction in the cash distributions CenterPoint Energy receives from Enable could significantly impact CenterPoint Energy's liquidity. For additional information about cash distributions from Enable, see Notes 9 and 20 to the Interim Condensed Financial Statements.

Hedging of Interest Expense for Future Debt Issuances

From time to time, we may enter into forward interest rate agreements to hedge, in part, volatility in the U.S. treasury rates by reducing variability in cash flows related to interest payments. For further information, see Note 7(a) to the Interim Condensed Financial Statements.

Weather Hedge (CenterPoint Energy and CERC)

We have historically entered into partial weather hedges for certain NGD jurisdictions and electric operations' service territory to mitigate the impact of fluctuations from normal weather. We remain exposed to some weather risk as a result of the partial hedges. For more information about our weather hedges, see Note 7(a) to the Interim Condensed Financial Statements.

Collection of Receivables from REPs (CenterPoint Energy and Houston Electric)

Houston Electric's receivables from the distribution of electricity are collected from REPs that supply the electricity Houston Electric distributes to their customers. Before conducting business, a REP must register with the PUCT and must meet certain financial qualifications. Nevertheless, adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more REPs could impair the ability of these REPs to pay for Houston Electric's services or could cause them to delay such payments. Houston Electric depends on these REPs to remit payments on a timely basis, and any delay or default in payment by REPs could adversely affect Houston Electric's cash flows. In the event of a REP's default, Houston Electric's tariff provides a number of remedies, including the option for Houston Electric to request that the PUCT suspend or revoke the certification of the REP. Applicable regulatory provisions require that customers be shifted to another REP or a provider of last resort if a REP cannot

make timely payments. However, Houston Electric remains at risk for payments related to services provided prior to the shift to the replacement REP or the provider of last resort. If a REP were unable to meet its obligations, it could consider, among various options, restructuring under the bankruptcy laws, in which event such REP might seek to avoid honoring its obligations and claims might be made against Houston Electric involving payments it had received from such REP. If a REP were to file for bankruptcy, Houston Electric may not be successful in recovering accrued receivables owed by such REP that are unpaid as of the date the REP filed for bankruptcy. However, PUCT regulations authorize utilities, such as Houston Electric, to defer bad debts resulting from defaults by REPs for recovery in future rate cases, subject to a review of reasonableness and necessity.

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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 weather hedging arrangements, and natural gas purchases, natural gas price and natural gas storage activities of the Natural Gas Distribution and Energy Services business segments;
- acceleration of payment dates on certain gas supply contracts, under certain circumstances, as a result of increased natural gas prices and concentration of natural gas suppliers;
- increased costs related to the acquisition of natural gas;
- increases in interest expense in connection with debt refinancings and borrowings under credit facilities;
- various legislative or regulatory actions;
- incremental collateral, if any, that may be required due to regulation of derivatives;
- the ability of GenOn and its subsidiaries, currently the subject of bankruptcy proceedings, to satisfy their obligations to us, including indemnity obligations, which may be contested by GenOn;
- the ability of REPs, including REP affiliates of NRG and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to CenterPoint Energy and Houston Electric;
- slower customer payments and increased write-offs of receivables due to higher natural gas prices or changing economic conditions;
- the outcome of litigation;
- contributions to pension and postretirement benefit plans;
- restoration costs and revenue losses resulting from future natural disasters such as hurricanes and the timing of recovery of such restoration costs; and
- various other risks identified in “Risk Factors” in Item 1A of Part I of each of the Registrants’ 2017 Form 10-K and Item 1A of Part II of CenterPoint Energy’s First Quarter 2018 Form 10-Q.

Certain Contractual Limits on Our Ability to Issue Securities and Borrow Money

Houston Electric has contractually agreed that it will not issue additional first mortgage bonds, subject to certain exceptions. For information about the total debt to capitalization financial covenants in our revolving credit facilities, see Note 12 to the Interim Condensed Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Interim Condensed Financial Statements, incorporated herein by reference, for a discussion of new accounting pronouncements that affect us.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk (CenterPoint Energy)

As of September 30, 2018, we had outstanding long-term debt, lease obligations and obligations under our ZENS that subject us to the risk of loss associated with movements in market interest rates.

Our floating rate obligations aggregated $202 million and $1.8 billion as of September 30, 2018 and December 31, 2017, respectively. If the floating interest rates were to increase by 10% from September 30, 2018 rates, our combined interest expense would increase by less than $1 million annually.

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As of September 30, 2018 and December 31, 2017, we had outstanding fixed-rate debt (excluding indexed debt securities) aggregating $7.6 billion and $7.0 billion, respectively, in principal amount and having a fair value of $7.8 billion and $7.5 billion, respectively. Because these instruments are fixed-rate, they do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by approximately $263 million if interest rates were to decline by 10% from levels at September 30, 2018. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments prior to their maturity.

The ZENS obligation is bifurcated into a debt component and a derivative component. The debt component of $25 million as of September 30, 2018 was a fixed-rate obligation and, therefore, did not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately $8 million if interest rates were to decline by 10% from levels at September 30, 2018. Changes in the fair value of the derivative component, a $685 million recorded liability at September 30, 2018, are recorded in our Condensed Statements of Consolidated Income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from September 30, 2018 levels, the fair value of the derivative component liability would decrease by approximately $2 million, which would be recorded as an unrealized gain in our Condensed Statements of Consolidated Income.

Equity Market Value Risk (CenterPoint Energy)

We are exposed to equity market value risk through our ownership of 10.2 million shares of AT&T Common and 0.9 million shares of Charter Common, which we hold to facilitate our ability to meet our obligations under the ZENS. Changes in the fair value of the ZENS-Related Securities held by CenterPoint Energy are expected to substantially offset changes in the fair value of the derivative component of the ZENS. A decrease of 10% from the September 30, 2018 aggregate market value of these shares would result in a net loss of approximately less than $1 million, which would be recorded as an unrealized loss in our Condensed Statements of Consolidated Income.

Commodity Price Risk From Non-Trading Activities (CenterPoint Energy and CERC)

We use derivative instruments as economic hedges to offset the commodity price exposure inherent in our businesses. The commodity risk created by these instruments, including the offsetting impact on the market value of natural gas inventory, is described below. We measure this commodity risk using a sensitivity analysis. For purposes of this analysis, we estimate commodity price risk by applying a $0.50 change in the forward NYMEX price to our net open fixed price position (including forward fixed price physical contracts, natural gas inventory and fixed price financial contracts) at the end of each period. As of September 30, 2018, the recorded fair value of our non-trading energy derivatives was a net asset of $51 million (before collateral), all of which is related to our Energy Services business segment. A $0.50 change in the forward NYMEX price would have had a combined impact of $7 million on our non-trading energy derivatives net asset and the market value of natural gas inventory.

Commodity price risk is not limited to changes in forward NYMEX prices. Variation of commodity pricing between the different indices used to mark to market portions of our natural gas inventory (Gas Daily) and the related fair value hedge (NYMEX) can result in volatility to our net income. Over time, any gains or losses on the sale of storage gas inventory would be offset by gains or losses on the fair value hedges.

Item 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Registrants carried out separate evaluations, under the supervision and with the participation of each company’s management, including the principal executive officer and

principal financial officer, of the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report. Based on those evaluations, the principal executive officer and principal financial officer, in each case, concluded that the disclosure controls and procedures were effective as of September 30, 2018 to provide assurance that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There has been no change in the Registrants' internal controls over financial reporting that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Registrants' internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a description of certain legal and regulatory proceedings, please read Note 14(b) to the Interim Condensed Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Future Sources and Uses of Cash" and "— Regulatory Matters," each of which is incorporated herein by reference. See also "Business — Regulation" and "— Environmental Matters" in Item 1 and "Legal Proceedings" in Item 3 of each of the Registrants' 2017 Form 10-K.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in each of the Registrants' 2017 Form 10-K and CenterPoint Energy's First Quarter 2018 Form 10-Q.

Item 6. EXHIBITS

Exhibits filed herewith are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated. Agreements included as exhibits are included only to provide information to investors regarding their terms. Agreements listed below may contain representations, warranties and other provisions that were made, among other things, to provide the parties thereto with specified rights and obligations and to allocate risk among them, and no such agreement should be relied upon as constituting or providing any factual disclosures about the Registrants, any other persons, any state of affairs or other matters.

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrants have not filed as exhibits to this Form 10-Q certain long-term debt instruments, including indentures, under which the total amount of securities authorized does not exceed 10% of the total assets of the Registrants and its subsidiaries on a consolidated basis. The Registrants hereby agree to furnish a copy of any such instrument to the SEC upon request.

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference	CenterPoint Energy	Houston Electric	CERC
2.1*	Agreement and Plan of Merger, dated as of April 21, 2018, by and among Vectren Corporation, CenterPoint Energy, Inc. and Pacer Merger Sub, Inc.	CenterPoint Energy's Form 8-K dated April 21, 2018	1-31447	2.1	x		
3.1	Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Form 8-K dated July 24, 2008	1-31447	3.2	x		
3.2	Restated Certificate of Formation of Houston Electric	Houston Electric's Form 10-Q for the quarter ended June 30, 2011	1-3187	3.1		x	
3.3	Certificate of Incorporation of RERC Corp.	CERC Form 10-K for the year ended December 31, 1997	1-13265	3(a)(1)			x
3.4	Certificate of Merger merging former NorAm Energy Corp.	CERC Form 10-K for the year ended	1-13265	3(a)(2)			x

	with and into HI Merger, Inc. dated August 6, 1997	December 31, 1997					
3.5	Certificate of Amendment changing the name to Reliant Energy Resources Corp.	CERC Form 10-K for the year ended December 31, 1998	1-13265	3(a)(3)			x
3.6	Certificate of Amendment changing the name to CenterPoint Energy Resources Corp.	CERC Form 10-Q for the quarter ended June 30, 2003	1-13265	3(a)(4)			x
3.7	Third Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 8-K dated February 21, 2017	1-31447	3.1	x		
3.8	Amended and Restated Limited Liability Company Agreement of Houston Electric	Houston Electric's Form 10-Q for the quarter ended June 30, 2011	1-3187	3.2		x	
3.9	Bylaws of RERC Corp.	CERC Form 10-K for the year ended December 31, 1997	1-13265	3(b)			x

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Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference	CenterPoint Energy	Houston Electric	CERC
3.10	Statement of Resolutions Deleting Shares Designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2011	1-31447	3(c)	x		
3.11	Statement of Resolution Establishing Series of Shares Designated Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 8-K dated August 22, 2018	1-31447	3.1	x		
3.12	Statement of Resolution Establishing Series of Shares designated 7.00% Series B Mandatory Convertible Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 8-K dated September 25, 2018	1-31447	3.1	x		
4.1	Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1	x		
4.2	Form of Certificate representing the Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 8-K dated August 22, 2018	1-31447	4.1	x		
4.3	Form of Certificate representing the 7.00% Series B Mandatory Convertible Preferred Stock of CenterPoint Energy (included as Exhibit A to Exhibit 3.12)	CenterPoint Energy's Form 8-K dated September 25, 2018	1-31447	4.1	x		
4.4	Deposit Agreement, dated as of October 1, 2018, among CenterPoint Energy and Broadridge Corporate Issuer Solutions, Inc., as Depositary, and the holders from time to time of the Depositary Receipts described therein	CenterPoint Energy's Form 8-K dated September 25, 2018	1-31447	4.2	x		
4.5	Form of Depositary Receipt for the Depositary Shares (included as Exhibit A to Exhibit 4.4)	CenterPoint Energy's Form 8-K dated September 25, 2018	1-31447	4.3	x		
4.6	$1,600,000,000 Credit Agreement, dated as of March 3, 2016, among	CenterPoint Energy's Form	1-31447	4.1	x		

	CenterPoint Energy, as Borrower, and the banks named therein	8-K dated March 3, 2016					
4.7	$300,000,000 Credit Agreement, dated as of March 3, 2016, among Houston Electric, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 3, 2016	1-31447	4.2	x	x	
4.8	$600,000,000 Credit Agreement, dated as of March 3, 2016, among CERC Corp., as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 3, 2016	1-31447	4.3	x		x
4.9	First Amendment to Amended and Restated Credit Agreement, dated as of June 16, 2017, by and among CenterPoint Energy, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated June 16, 2017	1-31447	4.1	x		
4.10	Second Amendment to Amended and Restated Credit Agreement, dated as of May 25, 2018, by and among CenterPoint Energy, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated May 25, 2018	1-31447	4.1	x		
4.11	First Amendment to Credit Agreement, dated as of June 16, 2017, among Houston Electric, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated June 16, 2017	1-31447	4.2	x	x	
4.12	First Amendment to Credit Agreement, dated as of June 16, 2017, among CERC Corp., as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated June 16, 2017	1-31447	4.3	x		x
4.13	Indenture, dated as of May 19, 2003, between CenterPoint Energy and JPMorgan Chase Bank, as Trustee	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.1	x		

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Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference	CenterPoint Energy	Houston Electric	CERC
+4.14	Supplemental Indenture No. 10 to Exhibit 4.11, dated as of October 5, 2018, providing for the issuance of CenterPoint Energy's 3.60% Senior Notes due 2021, 3.85% Senior Notes due 2024 and 4.25% Senior Notes due 2028				x		
+31.1.1	Rule 13a-14(a)/15d-14(a) Certification of Scott M. Prochazka				x		
+31.1.2	Rule 13a-14(a)/15d-14(a) Certification of Scott M. Prochazka					x	
+31.1.3	Rule 13a-14(a)/15d-14(a) Certification of Scott M. Prochazka						x
+31.2.1	Rule 13a-14(a)/15d-14(a) Certification of William D. Rogers				x		
+31.2.2	Rule 13a-14(a)/15d-14(a) Certification of William D. Rogers					x	
+31.2.3	Rule 13a-14(a)/15d-14(a) Certification of William D. Rogers						x
+32.1.1	Section 1350 Certification of Scott M. Prochazka				x		
+32.1.2	Section 1350 Certification of Scott M. Prochazka					x	
+32.1.3	Section 1350 Certification of Scott M. Prochazka						x
+32.2.1	Section 1350 Certification of William D. Rogers				x		
+32.2.2	Section 1350 Certification of William D. Rogers					x	
+32.2.3	Section 1350 Certification of William D. Rogers						x
+101.INS	XBRL Instance Document				x	x	x
+101.SCH	XBRL Taxonomy Extension Schema Document				x	x	x
+101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				x	x	x
+101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				x	x	x
+101.LAB	XBRL Taxonomy Extension Labels Linkbase Document				x	x	x
+101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				x	x	x

* Schedules to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules will be furnished supplementally to the SEC upon request; provided, however, that the parties may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any document so furnished.

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SIGNATURES

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

CENTERPOINT ENERGY, INC.
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ Kristie L. Colvin
Kristie L. Colvin
Senior Vice President and Chief Accounting Officer

Date: November 8, 2018