

Dear Shareholders,

I am pleased with the results we achieved in the first three-fourths of 2003. TXU continued to perform well in the second and third quarters, exceeding Wall Street's and the company's own estimates. Our results clearly demonstrate focus on meeting our 2003 objectives.

We are methodically accomplishing our key initiatives and are rebuilding confidence in TXU in the marketplace. We are delivering on our two-year plan, strengthening the balance sheet and enhancing credit, lowering costs and aggressively defending and building on our leadership positions in Texas and Australia.

We are on plan to repay debt and other obligations by more than \$3 billion by the end of 2004 and meet our capitalization targets. We continue to maintain ample liquidity (cash and available credit facility capacity) as well.

Costs are down substantially, reflecting the enormous effort by TXU employees. Excluding costs that have offsetting revenues, net cost reductions are expected to be over \$200 million. Even though we have made significant strides, we are slightly behind our goal of \$250 million net savings, primarily as a result of significantly reduced, but somewhat higher-than-planned bad-debt expenses. We have also added some expense for additional customer service staffing and other retail expenditures this year to further improve service levels.

We are pleased with our ability to retain existing customers and attract new ones in Texas. Customers remain loyal within the traditional North Texas service area, and we have achieved an 80 percent recognition of the TXU brand in new markets. In Australia, we have been particularly successful in acquiring large-business customers in South Australia and in retaining and attracting new customers in Victoria.

I am proud of the progress we have made in our two-year plan to restore the financial vigor of this company. The company's performance is a tribute to the capabilities and dedication of TXU employees.

Best wishes for a wonderful new year. Thank you for your continued support of TXU.



Erle Nye
Chairman of the Board and Chief Executive

mines that a partial IPO is advantageous and market conditions are appropriate, the action could occur in 2004. TXU would expect to maintain majority ownership in the Australia business and use the proceeds to reduce debt in Australia and position the business to fund growth opportunities.

Securitization Bonds Sold

Oncor has completed the sale of \$500 million of bonds related to the company's transition to competition. Under the terms of a settlement approved in June 2002 that resolved all major transition issues, the Public Utility Commission of Texas authorized Oncor to sell \$1.3 billion of transition bonds to recover regulatory assets and other qualified costs. The remaining \$800 million in securitization bonds will be sold in early 2004.

Leadership Changes

TXU has made several important changes to the management team, naming long-time TXU veterans Thomas L. Baker and Michael S. Greene to new positions. An executive vice president of TXU Corp., Tom Baker has been appointed group president of TXU Energy, the company's North America competitive energy business. Mike Greene is now group president of Oncor, TXU's regulated energy delivery business, replacing Baker. These changes followed Brian Dickie's resignation as executive vice president of TXU Corp. and group president of TXU Energy. He left TXU to fulfill a long-held desire to return to his native United Kingdom.

A 32-year career employee of TXU, Baker is now responsible for retail marketing and operations, portfolio management and production at TXU Energy. He has broad experience in most areas of the company's operations. In addition to his work in the regulated business, Baker led the company's efforts with legislators and regulators to develop a framework for the competitive Texas electricity market. He has been a member of TXU Corp. executive committees for many years and has held leadership positions in

TXU Communications Sale Progresses

Completion of the sale of the company's interest in the telecommunications business is expected in the first half of 2004, pending regulatory approvals. TXU Communications includes two rural telephone companies in Southeast Texas.

The decision to sell TXU Communications, announced in May 2003, is part of a continued focus on TXU's leadership position in the energy business in Texas and Australia. The proceeds will be used to pay down debt, including the Pinnacle One senior secured notes, which mature in August 2004. Pinnacle One is the joint venture formed in 2000 to hold the telecom

assets. It is now a wholly owned subsidiary of TXU.

Partial IPO for TXU Australia Being Evaluated

TXU has built a very solid business in Australia and is expecting opportunities for future growth in the Australian energy market. The company is currently refinancing TXU Australia's debt, including the December issuance of US\$300 million of notes and progress on a new bank facility, and is also reviewing ways to position the business for future growth.

One option under evaluation is a partial initial public offering of TXU Australia to the Australian market. If TXU's evaluation deter-

accounting, engineering, finance, rates and regulation, customer service and public policy. Baker regularly gives his time and expertise to move the industry forward. He has served on the boards of multiple energy groups, including the Edison Electric Institute, the Electric Power Research Institute and the Electric Reliability Council of Texas.

In his new position, Greene leads Oncor Electric Delivery, TXU Gas and Oncor Utility Solutions. With TXU for 34 years, Greene's new position is an expansion of his previous responsibility as president of Oncor Electric Delivery. Greene has held many leadership roles at TXU, including president of TXU's transmission and pipeline companies and executive vice president at the fuel and mining units. He is also widely respected among industry organizations for his knowledge of electric infrastructure and operations. His industry responsibilities include chairman of the board of directors of the Electric Reliability Council of Texas and chairman of high-level committees of the North American Electric Reliability Council and the Edison Electric Institute.

Focus on Safety Continues

Throughout its operations, TXU has made the safety of employees and the public a priority. A testament to the company's continuing safety focus, this year the American Gas Association presented TXU Gas with a Safety Achievement Award for achieving the best safety record in 2002 for large distribution companies. A number of Oncor's electric groups have worked over two million safe hours. Oncor's measurement group achieved 2.75 million work-hours without a lost-time injury, which is a milestone unequaled by any similar organization.

TXU Garners New Awards

TXU was honored with a number of awards in the second half of 2003. TXU Energy's Monticello Mine received a top award for exem-

plary mining and reclamation from the Department of Interior's Office of Surface Mining. Over the past decade, land-use planning at Monticello Mine has shifted from predominantly agriculture and domesticated vegetation to forest uses and native ground cover. The honored project demonstrates that reclamation in East Texas can benefit wildlife and provide high market value. In the past 19 years, TXU has received 72 awards for its mining and reclamation efforts.

The Texas Renewable Energy Industries Association also recognized TXU Energy's commitment to continuous environmental improvement with its Project of the Year Award for participation in the Green Mountain Energy Wind Farm. The association honored the project for its outstanding performance in implementing renewable energy in Texas in 2003. TXU Energy is already the largest purchaser of wind power in Texas and the Southwest. This project, TXU Energy's seventh, will avoid an estimated 360,000 tons of carbon dioxide. TXU Energy renewable projects in Texas provide enough energy to power more than 120,000 homes. Worldwide, TXU renewable projects provide enough energy to power the annual needs of about 615,000 people.

The American Indian Chamber of Commerce of Texas recently named TXU as Corporation of the Year 2003. This award is presented to corporations that demonstrate a commitment to the development of American Indian businesses through their procurement initiatives, outreach assistance and leadership efforts in this community.

TXU Energy's Production unit received an international award for excellence in project development, surpassing 25 projects around the world. Contributions to improve air quality at two TXU fossil power plants were recognized by Fluor Corporation, one of the world's largest publicly owned

engineering and maintenance service organizations.

On National Philanthropy Day, Nov. 9, the Dallas chapter of the Association of Fundraising Professionals honored TXU with the 2003 Philanthropy Award for Outstanding Corporation.

Directors Declare Quarterly Dividend

The board of directors at its November meeting declared a regular quarterly dividend of \$0.125 per share on the common stock of the company. The dividend is payable on January 2, 2004, to shareholders of record on December 5, 2003. If you are not participating in the Direct Stock Purchase and Dividend Reinvestment Plan or in the direct deposit option and your shares are not being held in a brokerage account, your dividend check is enclosed.

The 1099s that will be mailed in mid-January are expected to show that the 2003 dividends were non-taxable distributions, or returns of capital. We recommend you contact your tax advisor if you have questions about how this impacts your taxes.

This report contains forward-looking statements, which are subject to various risks and uncertainties. Discussion of risks and uncertainties that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in the company's SEC filings. The risks and uncertainties set forth in the company's SEC filings include TXU's ability to negotiate satisfactory terms and obtain all necessary governmental and other approvals and consents for the sale of TXU Communications, prevailing government policies on environmental, tax or accounting matters, regulatory and rating agency actions, weather conditions, unanticipated population growth or decline and changes in market demand and demographic patterns, changing competition for customers including the deregulation of the U.S. electric utility industry and the entry of new competitors, pricing and transportation of crude oil, natural gas and other commodities, financial and capital market conditions, unanticipated changes in operating expenses and capital expenditures, legal and administrative proceedings and settlements, inability of the various counterparties to meet their obligations with respect to financial instruments, and changes in technology used and services offered by TXU Corp.

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