

**Dear Shareholders,**

As you may recall, a special meeting of shareholders was called for Friday, February 14, 2003, for the purpose of considering a proposal to reclassify approximately \$8 billion of shareholders' equity from stated capital to surplus under the provisions of the Texas Business Corporations Act. I am pleased to report that the proposal was approved by more than 98 percent of the shares represented in person or by proxy at the meeting. This action will permit the continued payment of the current dividend and any increases in the dividend that may be authorized by the Board of Directors in the future. Thank you for your thoughtful consideration of this matter.

I wanted to take advantage of this mailing to report to you on the special shareholders' meeting. Approximately 200 shareholders attended the meeting, which lasted about an hour and a half. After organizing the meeting and conducting the vote, I discussed the challenges that the company and the electric utility industry have experienced over the past couple of years. In particular, I addressed the difficulties that the company encountered in Europe and the actions taken to exit that market and to seek to restore the company's previous prominence. After my remarks, we provided time for questions. The report that follows contains a summary of my comments and the question and answer session.

I believe that our path ahead is clear. We are defending and building on our leadership position in Texas and Australia, cutting costs, paying down debt, and strengthening credit. The employees and management team of this company are firmly committed to ensuring the company's success. The manner in which they have responded to adversity and remained focused on serving customers and shareholders is a source of great pride for me. As my January letter to you stated, the course ahead is challenging, but with the actions we are taking, I am very positive about the prospects for TXU. Thank you for your continued support of the company.

Sincerely,



Erle Nye  
Chairman of the Board and Chief Executive

- Strengthened its liquidity position, completing financing actions that position the company to maintain liquidity at a minimum of \$1.5 billion.
- Refocused attention on the strength of our remaining businesses, namely, TXU Energy, Oncor, and TXU Australia.

He also spoke about the dividend reduction, saying that at the outset the company expected to be able to pay the dividend out of the profits from North American and Australian operations. Nye said the reduction was later required to meet the increasingly stringent expectations of the credit agencies. Maintaining credit ratings sufficient to finance the business is essential to the company's survival as well as its prosperity.

He added that TXU has liquidity today, in part because it reduced the dividend and drastically reduced capital expenditures.

**A clean slate and clear path forward**

Looking ahead, Nye said he believes TXU is on the road to recovery and noted that the stock is showing some stability. He believes TXU has created a clean slate and clear path forward.

Nye added that the focus for the next 18 months will continue to be on reducing costs, paying down debt, emphasizing liquidity, and leveraging the strengths of the basic operations. He said he believes the objectives are clear. TXU will deliver on what he regards as very good business prospects by meeting its earnings expectations of a targeted growth rate of 4 to 6 percent.

"We have three solid businesses," Nye said, "that will carry us forward – TXU Energy, Oncor, and TXU Australia."

Nye ended his comments by expressing his appreciation to shareholders for their patience and encouragement. He said he wanted them to know that TXU is working hard to restore the full profitability of the enterprise to reach the conditions where the dividend can be increased, and again, warrant their full confidence.

**Other Highlights from the Meeting...**

**Industry and company difficulties**

Erle Nye told shareholders that 2002 was the most difficult year for the electric industry since the Great Depression. He said that of the 31 utilities in the S&P Utility Index and the Multi-Utility Index, 14 experienced stock declines of over 50 percent.

Acknowledging the serious impact caused by the failure of the business in Europe, Nye called it a major setback of tragic proportions for the company. He described the rapid nature of the failure in the United Kingdom as incredible. Nye said that while the adverse conditions impacting the electricity markets and the regulatory environment were well known, the severe

decline in credit availability was a surprise that hit the entire industry very hard. These conditions, combined with the failure of the energy trading markets in the UK constituted the perfect storm, and led to the failure of the business.

TXU was not alone in its difficulties. Nye told shareholders that British Energy, the privatized UK nuclear power company, is essentially bankrupt and being supported by the government, and he pointed out that most other US energy firms have withdrawn from the UK.

**TXU's decisive response**

Nye then outlined the decisive actions TXU has taken to stabilize its situation and commence rebuilding the company.

- Demonstrated a clear and complete path out of Europe.

## Questions and answers

Here are some of the questions that were raised during the meeting. For brevity and to conserve space, the answers have been summarized. If you would like to hear all of the questions and answers from the meeting, you can do so by visiting [www.txucorp.com](http://www.txucorp.com), under Investor Resources, in the webcasts section.

**Q.** Do you have a ballpark figure as to the amount of the liabilities that remain from the European operation?

**A.** TXU Europe's operations are now discontinued and have been written off the balance sheet. TXU Europe was organized as a totally separate corporate entity from the parent, TXU Corp. We adhered strictly to consistent corporate governance in every aspect of our dealings with TXU Europe.

**Q.** Has there been a reduction in the salaries of officers and employees?

**A.** Yes. When we first realized the stock was declining, I took the action to freeze officers' salaries and limit travel. Since then, we have also frozen the salaries of all employees and taken other cost-reducing actions.

Concerning the salaries of officers, we have always said that compensation should be related to the company's performance. Our performance in 2002 was poor, and compensation will reflect that. In addition, long-term incentive plans will not pay off this year or in 2004 as a result of the performance we had in 2002. In my own case, my compensation will be down in excess of 75 percent, as is appropriate.

We are holding to the fidelity of the idea that we should compensate for performance. In 2000 and 2001, our performance was very good and our total returns were among the best in the industry. Accordingly, officer compensation was generous in 2002. Because of the poor performance in 2002, officer compensation will be down significantly in 2003. Of course, most officers also have large holdings in TXU stock. In my case, most of my life savings are in TXU stock, so the greatest impact of the 2002 failure on me will be to my investments.

It is also important for you to know that we are reducing the size of the company. Our staffing numbers, including those in the

officer ranks, are too large for the size we are today. As a result, we are reducing the officer and supervisory ranks. I expect a reduction in the officer ranks of around 30 percent. (Most of this reduction has since been implemented.)

**Q.** Would you address TXU's credit rating?

**A.** All of TXU's subsidiaries, including TXU Energy and Oncor, have maintained their investment grade ratings by the three credit-rating agencies that cover TXU. Fitch and Standard & Poors continue to rate TXU Corp, the parent, at investment grade as well, although Moody's lowered it one notch below investment grade.

Most of TXU's debt financing is borrowed at the subsidiary level, and all subsidiaries remain solid investment grade. A key focus is to make sure we keep Oncor and TXU Energy at that level.

**Q.** What do you think earnings might be within the next two to three years?

**A.** We have told the market we expect growth in earnings per share of 4 to 6 percent.

In response to the market, we are focusing on the security of our earnings rather than growth in earnings. We think we can deliver reasonable growth. As we have already discussed, we are going to be cutting costs and paying down debt. Our focus will be to make our basic operations as effective and productive as they can be.

**Q.** What legal action is pending against the company?

**A.** The vast majority of the lawsuits that have been filed relate to allegations of securities fraud, and this is not unusual, considering what we have been through. When you have a large decline in stock price, there is an inclination for some to believe it is because of something that was not done properly. I believe 35 class action lawsuits have been filed. These lawsuits will be consolidated and the parties will select a lead firm. Certainly we take these lawsuits seriously, but I've looked for any indication that there was not proper handling of our situation in the UK, and to my knowledge, I believe we handled the UK situation entirely properly.

**Q.** Would you discuss TXU Communications and the large debt it carries?

**A.** The Pinnacle One transaction has been the subject of a lot of discussion. It is a combination of two telecommunications firms that are running a good basic, regulated telephone operation. While we do have more than \$800 million of debt tied up in it, we have enough liquidity to meet the debt when it comes due in August 2004.

**Q.** Knowing that nuclear power plants have a limited life, could you address the status of Comanche Peak?

**A.** Comanche Peak was one of the last nuclear plants built, with the two units being completed in 1990 and 1993. The units are intended to have service lives of 40 years. We have them on a consistent depreciation rate, and we are considering whether or not we need to extend the service lives for those units. I think we have more service life in our units than we thought and more than we originally planned for depreciation purposes.

Let me add that we've got a great nuclear plant. One of TXU's great strengths is its fuel diversity, of which Comanche Peak is an integral part.


**Q.** As you reorganize the company, what effort are you making to maintain the stability of your employees?

**A.** TXU has a remarkably resilient employee family. The employees are the most incredible, dedicated, committed group of people with which I could ever hope to be associated. As we downsize, we have to be very careful to do it humanely and to retain the capabilities, dedication, and commitment we need. Employees are the key asset of this company.

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