

**Dear Shareholders,**

I am pleased to report that with solid first-quarter financial results and continued operational progress we are on track to achieve our 2003 initiatives. Our key priorities are to strengthen our balance sheet and enhance credit, reduce costs, deliver on earnings, and aggressively defend and build on our leadership positions in Texas and Australia.

A number of key achievements demonstrate our progress this year. On May 1, we reported first-quarter earnings that were above expectations. We also announced our plan to sell TXU Communications to continue our focus on the core energy business in Texas and Australia.

TXU has also been successful in accessing the capital markets. We have added permanent financing to our operations and reduced our reliance on bank facilities. This year, we have successfully issued \$1.25 billion of notes in a debt offering and refinanced \$220 million of pollution-control revenue bonds. We have also repaid all our cash borrowings from banks in North America, some \$2.3 billion, and replaced expiring bank facilities.

We are on track to deliver significant cost reductions as well. Regrettably, employee layoffs have been necessary to help TXU return to financial viability, but the majority of these staff reductions have been completed.

TXU continues to perform well in its Texas and Australia regions. We are competing strongly in newly deregulated retail energy markets, retaining and attracting customers ahead of plan. And our energy delivery operations continue to provide reliable, low-cost service.

Through the dedication and commitment of employees, we have stabilized TXU financially, and we are now focused on enhancing operations and delivering on our 2003 initiatives.

I am grateful for your continued support of TXU.



Erle Nye  
Chairman of the Board and Chief Executive

**TXU Communications Offered for Sale**

TXU is selling its interests in the telecommunications business. The decision to sell TXU Communications is part of a continued focus on the company's core energy business in Texas and Australia. The proceeds will be used to repay 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.

TXU Communications includes two rural telephone companies, Lufkin-Conroe Telephone Exchange and Fort Bend Communications, in southeast Texas. TXU acquired Lufkin-Conroe in 1997 and Fort Bend in 2000. The sale's completion is expected by mid-2004.

**National Large C&I Gas Business Sold**

As part of the company's focus to reduce costs and allow greater concentration on its leading position in the Texas energy markets, TXU Energy has sold its large commercial and industrial (C&I) retail natural gas business in the Northeast, Midwest, and West. This operation provided natural gas and related services to businesses throughout the United States. TXU Energy continues to serve C&I retail customers in Texas. TXU Gas, the regulated retail business that serves almost 1.5 million residential customers in Texas, is a separate business and is not affected by the sales.

**TXU Gas Files Rate Case**

TXU Gas has filed a systemwide gas rate case with the Railroad Commission of Texas and the 437 incorporated cities and towns served by TXU Gas. The request represents an annual revenue increase of \$69.5 million, which represents an 11.5 percent return on equity and an 8.99 percent return on invested capital.

TXU Gas has invested about \$721 million in its pipeline and distribution systems in the last five years to continue providing safe and reliable natural gas service. A successful outcome of the rate

**Annual Meeting Held**

At the annual meeting on May 16, shareholders elected the following directors: Derek C. Bonham, Jerry S. Farrington, William M. Griffin, Kerney Laday, Jack E. Little, Margaret N. Maxey, Erle Nye, James E. Oesterreicher, Michael W. Ranger, and Herbert H. Richardson. Shareholders also approved Deloitte & Touche, LLP, as TXU's auditors. Shareholders voted against shareholder proposals related to indexed options and a new environmental report. For those interested, a recording of the meeting is available on the company's website at [www.txucorp.com](http://www.txucorp.com).

In other company action, the board of directors elected the following officers: Erle Nye, chairman of the board and chief executive; Thomas L. Baker, executive vice president; Brian N. Dickie, executive

vice president; H. Dan Farell, executive vice president and chief financial officer; Michael J. McNally, executive vice president; Eric H. Peterson, executive vice president and general counsel; Kirk R. Oliver, treasurer and assistant secretary; Peter B. Tinkham, secretary and assistant treasurer; Diane J. Kubin, assistant secretary; and Stanley J. Szlauderbach, assistant controller.

The board also declared a quarterly dividend of \$0.125 per share on common stock of the company. The dividend will be paid on July 1, 2003, to shareholders of record on June 6, 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.

case will improve TXU Gas's rate of return and its ability to continue to provide safe, reliable and reasonably priced natural gas to almost 1.5 million customers across Texas.

## Legislative Session Ends

The 78th session of the Texas Legislature ended June 2, 2003, with passage of three bills that affected TXU. Two of the bills favored by TXU affect the company's Comanche Peak nuclear power plant. One bill increases the authority of nuclear plant security officers, allowing the state's two nuclear plants to comply with heightened security measures recently issued by the Nuclear Regulatory Commission. The second bill establishes disposal sites for low-level radioactive waste. The facilities will be environmentally sound, permitted, and monitored. They will allow Comanche Peak and other entities in Texas that produce such waste to relocate it to a permanent storage site.

The other bill, Texas GRIP (Texas Gas Reliability Infrastructure Program), will stimulate investment in the natural gas delivery system and help the company recover regulated costs more quickly. Infrastructure investments are needed to meet the growing demands of the Texas economy and to maintain a safe and reliable gas delivery network.

TXU opposed several bills that would have changed the rules governing the new competitive market to favor various market participants. TXU believes the market needs to continue with clear and consistent rules to develop to its fullest potential. Ultimately, the legislature agreed and allowed those bills to expire in committee. The legislature is expected to take a closer look at laws affecting the electric industry during the Public Utility Commission sunset process in its 2005 session. The Texas Legislature meets every other year, although special sessions can be called.

## Management Changes Announced

TXU has made a number of management changes this year designed to strengthen its executive team. The board of directors elected H. Dan Farrell executive vice president and chief financial officer of TXU Corp. Farrell, a certified public accountant, has over 30 years of diverse experience in the energy industry. In 1994, he was appointed principal accounting officer for Texas Utilities Company and principal financial officer of its main subsidiary, TU Electric. He was made managing director of TXU Australia following acquisition of that subsidiary in 1995. He returned to lead TXU's electric and gas distribution unit in 1998 and assumed his most recent position as president of TXU Gas in 2002.

Mike McCall, formerly vice president of regulatory affairs, is now president of TXU Gas. He replaces Dan Farrell. McCall has held a variety of management positions over his 20-year career at TXU, including director of public policy. He also held positions in finance and accounting, strategy, and planning. McCall began his career at TXU Mining Company, where he served as manager of two of the company's lignite mines.

David H. Anderson, formerly vice president of investor relations, has been appointed senior vice president and principal accounting officer. In his new role, Anderson is responsible for accounting policies, financial reporting, and financial planning. He continues to report to Farrell. Anderson is a certified public accountant and joined the company in 1988. He has held numerous financial and management positions in the TXU system.

Tim Hogan is now director of investor relations, assuming Anderson's role. Hogan, who came to investor relations in 1997, joined TXU in 1982. He has extensive

experience in accounting, internal audit, and customer operations. Hogan is a certified public accountant and will also report to Farrell.

## TXU Honored with Awards

TXU has been honored with two awards recently for its environmental accomplishments. The U.S. Environmental Protection Agency has selected Oncor as the ENERGY STAR Partner of the Year for 2003. Oncor was chosen from more than 7,000 organizations for contributing to the reduction of nearly 30 million pounds of greenhouse-gas emissions.

TXU Mining has once again received the Mining Reclamation Award from the Railroad Commission of Texas for its overall efforts in planting more than 20 million trees since 1975 at the company's mining sites. Since 1991, TXU's commercial pine stands have sequestered an estimated 92,000 tons of carbon dioxide. The company also plants a large variety of hardwood trees and shrubs for wildlife habitat.

In the past decade, TXU has voluntarily reduced, avoided, or sequestered over 193 million tons of greenhouse gases. This effort is the largest achievement of any investor-owned energy company in the nation.

*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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Check out [txucorp.com](http://txucorp.com) for the latest information about the company. In the Investor Resources section, you'll find shareholder information, current news releases, financial presentations, live webcasts and replays of quarterly earnings conference calls and analyst meetings, SEC reports, and more.

Go to the Environment section for the 2002 TXU Environmental Review. Our 12th annual environmental report details a tradition of environmental excellence through a commitment to continuous improvement. You can view the report online or sign up for a print copy.

NYSE Stock Ticker: TXU

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