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Regulatory Financial Manager

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PUBLIC UTILITY COMMISSION
FILING CLERK

November 18, 2003

Filing Clerk
Public Utility Commission of Texas
1701 Congress Ave
PO Box 13326
Austin, Texas 78711-3326

**RE: PUCT Project No. 18661-S – 2003 Electric Securities and Exchange
Commission Form 10-Q pursuant to Subst. R. 25.73(c)**

In accordance with the Public Utility Commission of Texas Substantive Rules, we are filing herewith four copies of the Securities and Exchange Commission Quarterly Report - Form 10-Q of TXU US Holdings Company for the quarter ending September 30, 2003.

Should you have any questions, please contact me.

Yours very truly,

A handwritten signature in cursive script that reads "Stephen N. Ragland".

SNR:jt
Enclosures

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

— OR —

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

Commission File Number 1-11668

TXU US Holdings Company

A Texas Corporation

I.R.S. Employer Identification
No. 75-1837355

ENERGY PLAZA, 1601 BRYAN STREET, DALLAS, TEXAS 75201-3411
(214) 812-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Common Stock outstanding at November 7, 2003: 2,062,768 Class A shares, without par value and 39,192,594 Class B shares, without par value.

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Periodic reports on Form 10-K and Form 10-Q and current reports on Form 8-K that contain financial information of TXU US Holdings Company and its subsidiaries are made available to the public, free of charge, on the TXU Corp. website at <http://www.txucorp.com>, shortly after they have been filed with the Securities and Exchange Commission. TXU US Holdings Company will provide copies of current reports not posted on the website upon request.

GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

1999 Restructuring Legislation	legislation that restructured the electric utility industry in Texas to provide for competition
2002 Form 10-K	TXU US Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2002
Commission	Public Utility Commission of Texas
EITF	Emerging Issues Task Force
EITF 98-10	EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities"
EITF 01-8	EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease"
EITF 02-3	EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"
EITF 03-11	EITF Issue No. 03-11, 'Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" As Defined in EITF No. 02-3'
ERCOT	Electric Reliability Council of Texas
FASB	Financial Accounting Standards Board, the designated organization in the private sector for establishing standards of financial accounting and reporting
FIN	Financial Accounting Standards Board Interpretation
FIN 45	FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FIN No. 34"
FIN 46	FIN No. 46, "Consolidation of Variable Interest Entities"
Fitch	Fitch Ratings, Ltd.
GWh	gigawatt-hours
Moody's	Moody's Investors Services, Inc.
NRC	United States Nuclear Regulatory Commission
Oncor	Oncor Electric Delivery Company, a subsidiary of TXU US Holdings
POLR	provider of last resort of electricity to certain customers under the Commission rules interpreting the 1999 Restructuring Legislation
Price-to-beat rates	residential and small commercial customer electricity rates established by the Commission in the restructuring of the Texas market and required to be charged in a REP's historical service territories until January 1, 2005 or when 40% of the electricity consumed by such customer classes is supplied by competing REPs, adjusted periodically for changes in fuel costs
REPs	retail electric providers

S&P	Standard & Poor's, a division of the McGraw Hill Companies
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SEC	United States Securities and Exchange Commission
Settlement	regulatory settlement agreed to by the Commission in 2002
Settlement Plan	regulatory settlement plan filed with the Commission in December 2001
SFAS	Statement of Financial Accounting Standards
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SFAS 140	SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – a Replacement of FASB Statement No. 125"
SFAS 142	SFAS No. 142, "Goodwill and Other Intangible Assets"
SFAS 143	SFAS No. 143, "Accounting for Asset Retirement Obligations"
SFAS 145	SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections"
SFAS 146	SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities"
SFAS 149	SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"
SFAS 150	SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"
SG&A	selling, general and administrative
T&D	transmission and distribution
TXU Energy	TXU Energy Company LLC, a REP subsidiary of US Holdings
TXU Fuel	TXU Fuel Company, a subsidiary of TXU Energy
TXU Gas	TXU Gas Company, a subsidiary of TXU Corp.
TXU Mining	TXU Mining Company LP, a subsidiary of TXU Energy
TXU Portfolio Management	TXU Portfolio Management Company LP, a subsidiary of TXU Energy
TXU SESCO	TXU SESCO Company, a subsidiary of TXU Energy, which serves as a REP in ten counties in the eastern and central parts of Texas
US	United States of America
US GAAP	accounting principles generally accepted in the US
US Holdings	refers to TXU US Holdings Company or TXU US Holdings Company and its consolidated subsidiaries, depending on the context

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TXU US HOLDINGS COMPANY AND SUBSIDIARIES CONDENSED STATEMENTS OF CONSOLIDATED INCOME (Unaudited)

	Three Months Ended September 30, <u>2003</u> <u>2002</u>		Nine Months Ended September 30, <u>2003</u> <u>2002</u>	
	(millions of dollars)			
Operating revenues	\$2,622	\$2,536	\$6,734	\$6,532
Costs and expenses:				
Cost of energy sold and delivery fees	1,100	1,095	2,870	2,407
Operating costs	345	356	1,072	1,027
Depreciation and amortization.....	178	182	523	539
Selling, general and administrative expenses.....	216	250	610	783
Franchise and revenue-based taxes.....	88	95	268	289
Other income.....	(21)	(19)	(47)	(36)
Other deductions	10	3	13	8
Interest income.....	(2)	—	(11)	(1)
Interest expense and related charges.....	<u>151</u>	<u>104</u>	<u>459</u>	<u>314</u>
Total costs and expenses.....	<u>2,065</u>	<u>2,066</u>	<u>5,757</u>	<u>5,330</u>
Income before income taxes and cumulative effect of changes in accounting principles	557	470	977	1,202
Income tax expense.....	<u>186</u>	<u>150</u>	<u>316</u>	<u>385</u>
Income before cumulative effect of changes in accounting principles	371	320	661	817
Cumulative effect of changes in accounting principles, net of tax benefit (Note 2)	<u>—</u>	<u>—</u>	<u>(58)</u>	<u>—</u>
Net income	371	320	603	817
Preferred stock dividends.....	<u>1</u>	<u>2</u>	<u>5</u>	<u>7</u>
Net income available for common stock.....	<u>\$ 370</u>	<u>\$ 318</u>	<u>\$ 598</u>	<u>\$ 810</u>

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30, <u>2003</u> <u>2002</u>		Nine Months Ended September 30, <u>2003</u> <u>2002</u>	
	(millions of dollars)			
Net income.....	\$ 371	\$ 320	\$ 603	\$ 817
Other comprehensive income (loss), net of tax effects:				
Cash flow hedge activity —				
Net change in fair value of derivatives (net of tax benefit of \$11, \$33, \$63 and \$92)	(20)	(60)	(118)	(171)
Amounts realized in earnings during the period (net of tax expense of \$24, \$7, \$63 and \$5).....	<u>45</u>	<u>13</u>	<u>117</u>	<u>10</u>
Total.....	<u>25</u>	<u>(47)</u>	<u>(1)</u>	<u>(161)</u>
Comprehensive income.....	\$ 396	\$ 273	\$ 602	\$ 656

See Notes to Financial Statements.

TXU US HOLDINGS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
	(millions of dollars)	
Cash flows — operating activities:		
Income before cumulative effect of changes in accounting principles	\$ 661	\$ 817
Adjustments to reconcile income before cumulative effect of changes in accounting principles to cash provided by operating activities:		
Depreciation and amortization	577	599
Deferred income taxes and investment tax credits — net	140	167
Net unrealized (gain) loss from mark-to-market valuation of commodity contracts.....	(34)	4
Net gain from sales of assets	(40)	(30)
Reduction in regulatory liability.....	(125)	(112)
Retail clawback accrual.....	(19)	—
Changes in operating assets and liabilities	<u>159</u>	<u>(477)</u>
Cash provided by operating activities.....	1,319	968
Cash flows — financing activities:		
Issuances of long-term debt	1,900	2,261
Retirements/repurchases of securities:		
Long-term debt.....	(899)	(2,265)
Preferred stock	(91)	—
Change in advances — affiliates.....	(246)	(1,022)
Change in notes payable — banks	(1,804)	1,082
Repurchase of common stock.....	(463)	—
Dividends paid to parent	(250)	(677)
Preferred stock dividends paid.....	(5)	(7)
Redemption deposits applied to debt retirements.....	210	—
Debt premium, discount and reacquisition expenses.....	<u>(58)</u>	<u>(49)</u>
Cash used in financing activities	(1,706)	(677)
Cash flows — investing activities:		
Capital expenditures	(480)	(591)
Acquisition of a business	—	(36)
Proceeds from sale of assets	19	443
Nuclear fuel	(45)	(51)
Other.....	<u>(12)</u>	<u>(66)</u>
Cash used in investing activities.....	<u>(518)</u>	<u>(301)</u>
Net change in cash and cash equivalents.....	(905)	(10)
Cash and cash equivalents — beginning balance	<u>1,508</u>	<u>55</u>
Cash and cash equivalents — ending balance	<u>\$ 603</u>	<u>\$ 45</u>

See Notes to Financial Statements.

TXU US HOLDINGS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2003	December 31, 2002
	(millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 603	\$ 1,508
Restricted cash	—	210
Accounts receivable — trade	988	1,386
Inventories	361	338
Commodity contract assets	746	1,298
Other current assets	<u>214</u>	<u>213</u>
Total current assets	2,912	4,953
Investments:		
Restricted cash	75	68
Other investments	525	491
Property, plant and equipment — net	16,624	16,183
Goodwill	558	558
Regulatory assets — net	1,835	1,630
Commodity contract assets	222	476
Cash flow hedges and other derivative assets	66	14
Other noncurrent assets	<u>175</u>	<u>146</u>
Total assets	<u>\$22,992</u>	<u>\$24,519</u>
LIABILITIES, PREFERRED INTERESTS AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Advances from affiliates	\$ 291	\$ 787
Notes payable — banks	—	1,804
Long-term debt due currently	128	397
Accounts payable — trade	713	820
Commodity contract liabilities	550	1,138
Accrued taxes	352	303
Other current liabilities	<u>637</u>	<u>724</u>
Total current liabilities	2,671	5,973
Accumulated deferred income taxes	3,347	3,227
Investment tax credits	434	450
Commodity contract liabilities	149	320
Cash flow hedges and other derivative liabilities	169	150
Other noncurrent liabilities and deferred credits	1,553	1,063
Long-term debt, less amounts due currently	7,416	6,613
Exchangeable preferred membership interests of TXU Energy, net of \$256 discount (Note 1)	<u>494</u>	<u>—</u>
Total liabilities	16,233	17,796
Preferred stock subject to mandatory redemption (Note 4)	—	21
Contingencies (Note 6)		
Shareholders' equity (Note 5):		
Preferred stock not subject to mandatory redemption (Note 4)	38	115
Common stock without par value (Note 5):		
Class A — Authorized shares: September 30, 2003 — 9,000,000 and December 31, 2003 — 180,000,00, Outstanding shares: September 30, 2003 — 2,062,768 and December 31, 2003 — 52,817,862	102	2,514
Class B — Authorized shares: September 30, 2003 — 171,000,000, Outstanding shares: September 30, 2003 — 39,192,594	1,949	—
Retained earnings	4,859	4,261
Accumulated other comprehensive loss	<u>(189)</u>	<u>(188)</u>
Total common stock equity	<u>6,721</u>	<u>6,587</u>
Total shareholders' equity	<u>6,759</u>	<u>6,702</u>
Total liabilities, preferred interests and shareholders' equity	<u>\$22,992</u>	<u>\$24,519</u>

See Notes to Financial Statements.

TXU US HOLDINGS COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business —US Holdings is a holding company for TXU Energy and Oncor. US Holdings is a wholly-owned subsidiary of TXU Corp., a Texas corporation. US Holdings engages, through TXU Energy, in power production (electricity generation), wholesale energy sales, retail energy sales and related services, portfolio management, including risk management and certain trading activities, as well as, through Oncor, in the transmission and distribution of electricity. US Holdings' consolidated operations consist of its TXU Energy and Oncor business segments and the activities of the holding company, which consists primarily of servicing approximately \$160 million in debt. See discussion of reportable business segments in Note 7.

Basis of Presentation —The condensed consolidated financial statements of US Holdings have been prepared in accordance with US GAAP and on the same basis as the audited financial statements included in its 2002 Form 10-K, except for the effect of adopting the following new accounting rules: EITF 02-3, SFAS 143, SFAS 145 and SFAS 150, all discussed below.

In the opinion of management, all other adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with US GAAP have been omitted pursuant to the rules and regulations of the SEC. Because the consolidated interim financial statements do not include all of the information and footnotes required by US GAAP, they should be read in conjunction with the audited financial statements and related notes included in the 2002 Form 10-K. The results of operations for an interim period may not give a true indication of results for a full year. Certain previously reported amounts have been reclassified to conform to current classifications.

All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated.

Effective April 1, 2003, the estimates of the depreciable lives of the Comanche Peak nuclear generating plant and several gas generation plants were extended to better reflect the useful lives of the assets. At the same time, depreciation rates were increased on lignite and gas generation facilities to reflect investments in emissions control equipment. The net impact of these changes was a reduction in depreciation expense of \$25 million and an increase in net income of \$16 million for the nine-month period ended September 30, 2003.

Changes in Accounting Standards — In October 2002, the EITF, through EITF 02-3, rescinded EITF 98-10, which required mark-to-market accounting for all trading activities. SFAS 143, regarding asset retirement obligations, became effective on January 1, 2003. As a result of the implementation of these two accounting standards, US Holdings recorded a cumulative effect of changes in accounting principles as of January 1, 2003. (See Note 2 for a discussion of the impacts of these two accounting standards.)

As a result of guidance provided in EITF 02-3, US Holdings has not recognized origination gains on commercial and industrial retail contracts in 2003. For the three- and nine-month periods ended September 30, 2002, US Holdings recognized \$2 million and \$36 million in origination gains on such contracts, respectively.

SFAS 145, regarding classification of items as extraordinary, became effective on January 1, 2003. One of the provisions of this statement is the rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt".

As a result of the implementation of SFAS 145 as of January 1, 2003, the previously reported annual after-tax losses on the early extinguishment of debt of \$97 million in the year ended December 31, 2001 (as described in the Notes to Financial Statements in the 2002 Form 10-K) will be reclassified from extraordinary items to other deductions and income tax expense in income from continuing operations as such losses do not meet the criteria of an extraordinary item. There was no effect on net income as a result of the implementation of SFAS 145.

SFAS 146 became effective on January 1, 2003. SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized only when the liability is incurred and measured initially at fair value. The adoption of SFAS 146 did not impact results of operations for the nine months ended September 30, 2003.

FIN 45 was issued in November 2002 and requires recording the fair value of guarantees upon issuance or modification after December 31, 2002. The interpretation also requires expanded disclosures of guarantees (see Note 6 under *Guarantees*). The adoption of FIN 45 did not impact results of operations for the nine months ended September 30, 2003.

FIN 46, which was issued in January 2003, provides guidance related to identifying variable interest entities and determining whether such entities should be consolidated. On October 8, 2003, the FASB decided to defer implementation of FIN 46 until the fourth quarter of 2003. This deferral only applies to variable interest entities that existed prior to February 1, 2003. The adoption of FIN 46 did not and is not expected to impact results of operations.

SFAS 149 was issued in April 2003 and became effective for contracts entered into or modified after June 30, 2003. SFAS 149 clarifies what contracts may be eligible for the normal purchase and sale exception, the definition of a derivative and the treatment in the statement of cash flows when a derivative contains a financing component. Also, EITF 03-11 became effective October 1, 2003 and, among other things, discussed the nature of certain power contracts. As a result of the issuance of SFAS 149 and EITF 03-11, certain commodity contract hedges are expected to be replaced with another type of hedge that is subject to effectiveness testing. The adoption of these changes did not impact results of operations for the nine months ended September 30, 2003.

SFAS 150 was issued in May 2003 and became effective June 1, 2003 for new financial instruments and July 1, 2003 for existing financial instruments. SFAS 150 requires that mandatorily redeemable preferred securities be classified as liabilities beginning July 1, 2003. As a result of the implementation of SFAS 150, the September 30, 2003 balance sheet reflects the classification of \$7 million of preferred stock subject to mandatory redemption as a liability (see Note 4). In July 2003, TXU Energy exercised its right to exchange its \$750 million 9% Exchangeable Subordinated Notes due 2012 for exchangeable preferred membership interests with identical economic and other terms (see Note 3). Because the exchangeability feature of these preferred securities provides for the holders to exchange the securities with TXU Corp. for TXU Corp. common stock, the securities are deemed to be mandatorily redeemable by TXU Energy. Therefore, in accordance with SFAS 150, the September 30, 2003 balance sheet reflects the classification of these securities (net of \$256 million in unamortized discount) as liabilities.

EITF 01-8 was issued in May 2003 and is effective prospectively for arrangements that are new, modified or committed to beginning July 1, 2003. This guidance requires that certain types of arrangements be accounted for as leases, including tolling and power supply contracts, take-or-pay contracts and service contracts involving the use of specific property and equipment. The adoption of this change did not impact results of operations for the nine months ended September 30, 2003.

2. CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The following summarizes the effect on results for the nine months ended September 30, 2003 for changes in accounting principles effective January 1, 2003:

Charge from rescission of EITF 98-10, net of tax effect of \$34 million	\$ (63)
Credit from adoption of SFAS 143, net of tax effect of \$3 million	<u>5</u>
Total net charge	<u>\$ (58)</u>

On October 25, 2002, the EITF, through EITF 02-3, rescinded EITF 98-10, which required mark-to-market accounting for all trading activities. Pursuant to this rescission, only financial instruments that are derivatives under SFAS 133 will be subject to mark-to-market accounting. Financial instruments that may not be derivatives under SFAS 133, but were marked-to-market under EITF 98-10, consist primarily of gas transportation and storage agreements, power tolling, full requirements and capacity contracts. This new accounting rule was effective for new contracts entered into after October 25, 2002. Non-derivative contracts entered into prior to October 26, 2002, continued to be accounted for at fair value through December 31, 2002; however, effective January 1, 2003, such contracts were required to be accounted for on a settlement basis. Accordingly, a charge of \$97 million (\$63 million after-tax) has been reported as a cumulative effect of a change in accounting principles in the first quarter of 2003. Of the total, \$75 million reduced net commodity contract assets and liabilities and \$22 million reduced inventory that had previously been marked-to-market as a trading position. The cumulative effect adjustment represents the net gains previously recognized for these contracts under mark-to-market accounting.

SFAS 143 became effective on January 1, 2003. SFAS 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period of its inception. For US Holdings, such liabilities relate to nuclear generation plant decommissioning, land reclamation related to lignite mining and removal of lignite plant ash treatment facilities. The liability is recorded at its net present value with a corresponding increase in the carrying value of the related long-lived asset. The liability is accreted each period, representing the time value of money, and the capitalized cost is depreciated over the remaining useful life of the related asset.

As the new accounting rule required retrospective application to the inception of the liability, the effects of the adoption reflect the accretion and depreciation from the liability inception date through December 31, 2002. Further, the effects of adoption take into consideration liabilities of \$215 million (previously reflected in accumulated depreciation) US Holdings had previously recorded as depreciation expense and \$26 million (reflected in other noncurrent liabilities) of unrealized net gains associated with the decommissioning trusts.

The following table summarizes the impact as of January 1, 2003 of adopting SFAS 143:

Increase in property, plant and equipment - net	\$ 488
Increase in other noncurrent liabilities and deferred credits	(528)
Increase in accumulated deferred income taxes	(3)
Increase in regulatory assets - net	<u>48</u>
Cumulative effect of change in accounting principles.....	<u>\$ 5</u>

The asset retirement liability at September 30, 2003 was \$569 million, comprised of a \$554 million liability as a result of adoption of SFAS 143 and \$27 million of accretion during the first nine months of 2003 reduced by \$12 million in reclamation payments.

With respect to nuclear decommissioning costs, US Holdings believes that the adoption of SFAS 143 results primarily in timing differences in the recognition of asset retirement costs that TXU Energy is currently recovering through the regulatory process.

On a pro forma basis, assuming SFAS 143 had been adopted at the beginning of the periods, income from operations for the nine months ended September 30, 2002 would have increased by \$7 million after-tax and the liability for asset retirement obligations as of September 30, 2002, would have been \$546 million.

3. FINANCING ARRANGEMENTS

At September 30, 2003, US Holdings had outstanding short-term borrowings consisting of advances from affiliates of \$291 million. At December 31, 2002, outstanding short-term bank borrowings were \$1.8 billion and advances from affiliates were \$787 million. Weighted average interest rates on short-term borrowings were 2.87% and 2.44% at September 30, 2003 and December 31, 2002, respectively.

Credit Facilities —At September 30, 2003, credit facilities available to TXU Corp. and its US subsidiaries were as follows:

<u>Facility</u>	<u>Expiration Date</u>	<u>Authorized Borrowers</u>	<u>At September 30, 2003</u>			
			<u>Facility Limit</u>	<u>Letters of Credit</u>	<u>Cash Borrowings</u>	<u>Availability</u>
Five-Year Revolving Credit Facility	February 2005	US Holdings	\$ 1,400	\$ 266	\$ —	\$1,134
Revolving Credit Facility	February 2005	TXU Energy, Oncor	450	4	—	446
Three-Year Revolving Credit Facility	May 2005	US Holdings (a)	400	—	—	400
Five-Year Revolving Credit Facility	August 2008	TXU Corp.	500	—	—	500
Total			<u>\$ 2,750</u>	<u>\$ 270</u>	<u>\$ —</u>	<u>\$2,480</u>

(a) previously TXU Corp.

Through April 2003, TXU Corp. and its US subsidiaries repaid \$2.3 billion in cash borrowings outstanding as of December 31, 2002 under available credit facilities.

In August 2003, TXU Corp. entered into the \$500 million 5-year revolving credit facility that provides for up to \$500 million in letters of credit or up to \$250 million of loans (\$500 million in the aggregate).

In April 2003, the \$450 million revolving credit facility was established for TXU Energy and Oncor. This facility will be used for working capital and other general corporate purposes, including letters of credit, and replaced a \$1 billion 364-day revolving credit facility that expired in April 2003. Up to \$450 million of letters of credit may be issued under the facility.

Since December 31, 2002, TXU Corp. elected to cancel \$250 million in other US credit facility capacity in response to changing liquidity needs.

The US Holdings, TXU Energy and Oncor facilities provide back-up for any future issuance of commercial paper by TXU Energy and Oncor. At September 30, 2003, there was no such outstanding commercial paper.

The \$1.4 billion facility provides for up to \$1.0 billion in letters of credit.

Long-Term Debt —At September 30, 2003 and December 31, 2002, the long-term debt of US Holdings and its consolidated subsidiaries consisted of the following

	September 30, 2003	December 31, 2002
TXU Energy		
Pollution Control Revenue Bonds:		
Brazos River Authority:		
Floating Taxable Series 1993 due June 1, 2023	\$ —	\$ 44
3.000% Fixed Series 1994A due May 1, 2029, remarketing date May 1, 2005(a).....	39	39
5.400% Fixed Series 1994B due May 1, 2029, remarketing date May 1, 2006(a)	39	39
5.400% Fixed Series 1995A due April 1, 2030, remarketing date May 1, 2006(a)	50	50
5.050% Fixed Series 1995B due June 1, 2030, remarketing date June 19, 2006(a)	118	118
7.700% Fixed Series 1999A due April 1, 2033	111	111
6.750% Fixed Series 1999B due September 1, 2034, remarketing date April 1, 2013(a)	16	16
7.700% Fixed Series 1999C due March 1, 2032.....	50	50
4.950% Fixed Series 2001A due October 1, 2030, remarketing date April 1, 2004(a)	121	121
4.750% Fixed Series 2001B due May 1, 2029, remarketing date November 1, 2006(a)	19	19
5.750% Fixed Series 2001C due May 1, 2036, remarketing date November 1, 2011(a)	274	274
4.250% Fixed Series 2001D due May 1, 2033, remarketing date November 1, 2003(a)	271	271
Floating Taxable Series 2001F due December 31, 2036.....	—	39
1.170% Floating Taxable Series 2001G due December 1, 2036(b).....	72	72
1.120% Floating Taxable Series 2001H due December 1, 2036(b)	31	31
1.120% Floating Taxable Series 2001I due December 1, 2036(b).....	63	63
1.150% Floating Series 2002A due May 1, 2037(b)	61	61
6.750% Fixed Series 2003A due April 1, 2038, remarketing date April 1, 2013(a)	44	—
6.300% Fixed Series 2003B due July 1, 2032.....	39	—
Sabine River Authority of Texas:		
6.450% Fixed Series 2000A due June 1, 2021	51	51
5.500% Fixed Series 2001A due May 1, 2022, remarketing date November 1, 2011(a).....	91	91
5.750% Fixed Series 2001B due May 1, 2030, remarketing date November 1, 2011(a)	107	107
4.000% Fixed Series 2001C due May 1, 2028, remarketing date November 1, 2003(a)	70	70
Floating Taxable Series 2001D due December 31, 2036	—	12
1.120% Floating Taxable Series 2001E due December 31, 2036(b)	45	45
5.800% Fixed Series 2003A due July 1, 2022	12	—
Trinity River Authority of Texas:		
6.250% Fixed Series 2000A due May 1, 2028	14	14
5.000% Fixed Series 2001A due May 1, 2027, remarketing date November 1, 2006(a)	37	37
Other:		
7.000% Fixed Senior Notes - TXU Mining due May 1, 2003.....	—	72
6.875% Fixed Senior Notes - TXU Mining due August 1, 2005	30	30
9.000% Fixed Exchangeable Subordinated Notes due November 22, 2012 (c)	—	750
6.125% Fixed Senior Notes due March 15, 2008	250	—
7.000% Fixed Senior Notes due March 15, 2013	1,000	—
Capital lease obligations	12	10
Other	7	8
Unamortized premium and discount and fair value adjustments	17	(264)
Total TXU Energy	\$ 3,161	\$ 2,451

	September 30, 2003	December 31, 2002
<u>Oncor</u>		
9.530% Fixed Medium Term Secured Notes due January 30, 2003	—	4
9.700% Fixed Medium Term Secured Notes due February 28, 2003	—	11
6.750% Fixed First Mortgage Bonds due March 1, 2003	—	133
6.750% Fixed First Mortgage Bonds due April 1, 2003	—	70
8.250% Fixed First Mortgage Bonds due April 1, 2004	100	100
6.250% Fixed First Mortgage Bonds due October 1, 2004	121	121
6.750% Fixed First Mortgage Bonds due July 1, 2005	92	92
7.875% Fixed First Mortgage Bonds due March 1, 2023	—	224
8.750% Fixed First Mortgage Bonds due November 1, 2023	—	103
7.875% Fixed First Mortgage Bonds due April 1, 2024	—	133
7.625% Fixed First Mortgage Bonds due July 1, 2025	215	215
7.375% Fixed First Mortgage Bonds due October 1, 2025	178	178
6.375% Fixed Senior Secured Notes due May 1, 2012	700	700
7.000% Fixed Senior Secured Notes due May 1, 2032	500	500
6.375% Fixed Senior Secured Notes due January 15, 2015	500	500
7.250% Fixed Senior Secured Notes due January 15, 2033	350	350
5.000% Fixed Debentures due September 1, 2007	200	200
7.000% Fixed Debentures due September 1, 2022	800	800
2.260% Fixed Series 2003 Transition Bonds due in bi-annual installments through February 15, 2007	103	—
4.030% Fixed Series 2003 Transition Bonds due in bi-annual installments through February 15, 2010	122	—
4.950% Fixed Series 2003 Transition Bonds due in bi-annual installments through February 15, 2013	130	—
5.420% Fixed Series 2003 Transition Bonds due in bi-annual installments through August 15, 2015	145	—
Unamortized premium and discount	(31)	(35)
Total Oncor	4,225	4,399
<u>US Holdings</u>		
7.170% Fixed Senior Debentures due August 1, 2007	10	10
9.556% Fixed Notes due in bi-annual installments through December 4, 2019	72	73
8.254% Fixed Notes due in quarterly installments through December 31, 2021	67	68
1.910% Floating Rate Junior Subordinated Debentures, Series D due January 30, 2037(c)	1	1
8.175% Fixed Junior Subordinated Debentures, Series E due January 30, 2037	8	8
Total US Holdings	158	160
Total US Holdings consolidated	7,544	7,010
Less amount due currently	128	397
Total long-term debt	<u>\$ 7,416</u>	<u>\$ 6,613</u>

- (a) These series are in the multiannual mode and are subject to mandatory tender prior to maturity on the mandatory remarketing date. On such date, the interest rate and interest rate period will be reset for the bonds.
- (b) Interest rates in effect at September 30, 2003. These series are in a flexible or weekly rate mode and are classified as long-term as they are supported by long-term irrevocable letters of credit. Series in the flexible mode will be remarketed for periods of less than 270 days.
- (c) Interest rates in effect at September 30, 2003.

In November 2003, the Brazos River Authority Series 2001D pollution control revenue bonds (aggregate principal amount of \$271 million) were remarketed and converted from a multiannual mode to a weekly rate mode, and the Sabine River Authority Series 2001C pollution control revenue bonds (aggregate principal amount of \$70 million) were purchased upon mandatory tender. US Holdings intends to remarket these bonds in the first quarter of 2004.

In October 2003, the Brazos River Authority issued \$72 million aggregate principal amount of Series 2003C pollution control revenue bonds and \$31 million aggregate principal amount of Series 2003D pollution control revenue bonds for TXU Energy. The Series 2003C bonds will bear interest at an annual rate of 6.75%

until maturity in 2038. The Series 2003D bonds will bear interest at an annual rate of 5.40% until their mandatory tender date in 2014, at which time they will be remarketed. Proceeds from the issuance of the Series 2003C and Series 2003D bonds were used to refund the \$72 million aggregate principal amount of Brazos River Authority Taxable Series 2001G and the \$31 million aggregate principal amount of Series 2001H variable rate pollution control revenue bonds, both due December 1, 2036. The Sabine River Authority also issued \$45 million aggregate principal amount of Series 2003B pollution control revenue bonds for TXU Energy. The Series 2003B bonds will bear interest at an annual rate of 6.15% until maturity in 2022, however they become callable in 2013. Proceeds from the issuance of the Series 2003B bonds were used to refund the \$45 million aggregate principal amount of Sabine River Authority Taxable Series 2001E variable rate pollution control revenue bonds due December 1, 2036.

In August 2003, Oncor's wholly-owned, special purpose bankruptcy-remote subsidiary, Oncor Electric Delivery Transition Bond Company LLC, issued \$500 million aggregate principal amount of transition (securitization) bonds in accordance with the Settlement and a financing order. The bonds were issued in four classes that require bi-annual interest and principal installment payments beginning in 2004 through specified dates in 2007 through 2015. The transition bonds bear interest at fixed annual rates ranging from 2.26% to 5.42%. Oncor used the proceeds to retire the \$224 million aggregate principal amount of the 7 7/8% First Mortgage Bonds due March 1, 2023 and \$133 million principal amount of the 7 7/8% First Mortgage Bonds due April 1, 2024, as well as to repurchase outstanding common shares from its parent, US Holdings, in the amount of \$125 million. The Settlement and financing order provide for a second issuance of \$800 million expected to be completed in the first quarter of 2004.

In July 2003, TXU Energy exercised its right to exchange its \$750 million 9% Exchangeable Subordinated Notes due November 22, 2012 for exchangeable preferred membership interests with identical economic and other terms. These securities are convertible into TXU Corp. common stock at an exercise price of \$13.1242. The market price of TXU Corp. common stock on September 30, 2003 was \$23.56. Any exchange of these securities into common stock would result in a proportionate write-off of the related unamortized discount as a charge to earnings. If all the securities had been exchanged into common stock on September 30, 2003, the pre-tax charge would have been \$256 million. (See Note 1 regarding classification of these securities under SFAS 150.)

In July 2003, the Brazos River Authority issued \$39 million aggregate principal amount of Series 2003B pollution control revenue bonds for TXU Energy. The bonds will bear interest at an annual rate of 6.30% until maturity in 2032. Proceeds from the issuance of the bonds were used to refund the \$39 million aggregate principal amount of Brazos River Authority Taxable Series 2001F variable rate pollution control revenue bonds due December 31, 2036. The Sabine River Authority also issued \$12 million aggregate principal amount of Series 2003A pollution control revenue bonds for TXU Energy. The bonds will bear interest at an annual rate of 5.80% until maturity in 2022. Proceeds from the issuance of these bonds were used to refund the \$12 million aggregate principal amount of Sabine River Authority Taxable Series 2001D pollution control revenue bonds due December 31, 2036.

In May 2003, the Brazos River Authority Series 1994A and the Trinity River Authority Series 2000A pollution control revenue bonds (aggregate principal amount of \$53 million) were purchased upon mandatory tender. In July 2003, the bonds were remarketed and converted from a floating rate mode to a multiannual mode at an annual rate of 3.00% and 6.25%, respectively. The rate on the 1994A bonds will remain in effect until their mandatory remarketing date of May 1, 2005. The rate on the 2000A bonds will remain in effect until their maturity in 2028.

In May 2003, \$72 million principal amount of the 7% TXU Mining fixed rate senior notes were repaid at maturity.

In April 2003, Oncor repaid the \$70 million principal amount of its First Mortgage Bonds, 6.75% Series, at the maturity date for par value plus accrued interest. A restricted cash deposit of \$72 million was utilized to fund the maturity.

In April 2003, the Brazos River Authority Series 1999A pollution control revenue bonds, with an aggregate principal amount of \$111 million, were remarketed. The bonds now bear interest at a fixed annual rate of 7.70% and are callable beginning on April 1, 2013 at a price of 101% until March 31, 2014 and at 100% thereafter.

In March 2003, the Brazos River Authority Series 1999B and 1999C pollution control revenue bonds (aggregate principal amount of \$66 million) were converted from a floating rate mode to a multiannual mode at annual rates of 6.75% and 7.70%, respectively. The rate on the 1999B bonds will remain in effect until 2013 at which time they will be remarketed. The rate on the 1999C bonds is fixed to maturity in 2032, however they become callable in 2013.

In March 2003, the Brazos River Authority issued \$44 million aggregate principal amount of pollution control revenue bonds for TXU Energy. The bonds will bear interest at an annual rate of 6.75% until the mandatory tender date of April 1, 2013. On April 1, 2013, the bonds will be remarketed. Proceeds from the issuance of the bonds were used to repay the \$44 million principal amount of Brazos River Authority Series 1993 pollution control revenue bonds due June 1, 2023.

In March 2003, Oncor repaid the \$133 million principal amount of its First Mortgage Bonds, 6.75% Series, at the maturity date for par value plus accrued interest. A restricted cash deposit of \$138 million was utilized to fund the maturity.

In March 2003, Oncor redeemed all (\$103 million principal amount) of its First Mortgage and Collateral Trust Bonds, 8.75% Series due November 1, 2023, at 104.01% of the principal amount thereof, plus accrued interest to the redemption date.

In March 2003, TXU Energy issued \$1.25 billion aggregate principal amount of senior unsecured notes in two series in a private placement with registration rights. One series in the amount of \$250 million is due March 15, 2008, and bears interest at the annual rate of 6.125%, and the other series in the amount of \$1 billion is due March 15, 2013, and bears interest at the annual rate of 7%. Net proceeds from the issuance were used for general corporate purposes, including the repayment of borrowings under TXU Corp.'s credit facilities. In August 2003, TXU Energy entered into interest rate swap transactions through 2013, which are being accounted for as fair value hedges, to effectively convert \$500 million of the notes to floating interest rates.

Sale of Receivables —TXU Corp. has established an accounts receivable securitization program. The activity under this program is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, US subsidiaries of TXU Corp., including TXU Energy, Oncor and TXU Gas (originators), sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy remote direct subsidiary of TXU Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions. In September 2003, the maximum amount of undivided interests that could be sold by TXU Receivables Company was increased by \$100 million to \$700 million. In November 2003, this amount decreased to \$600 million.

All new trade receivables under the program generated by the originators are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, are generally due to seasonal variations in the level of accounts receivable and changes in collection trends. TXU Receivables Company has issued subordinated notes payable to the originators for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid that was funded by the sale of the undivided interests.

The discount from face amount on the purchase of receivables funds a servicing fee paid by TXU Receivables Company to TXU Business Services Company, a direct subsidiary of TXU Corp., as well as

program fees paid by TXU Receivables Company to the financial institutions. The servicing fee compensates TXU Business Services Company for its services as collection agent, including maintaining the detailed accounts receivable collection records. TXU Business Services Company charges the affiliated businesses for its servicing costs, net of the servicing fee income. The program fees paid to financial institutions, which consist primarily of interest costs on the underlying financing, were \$8 million and \$10 million for the nine-month periods ending September 30, 2003 and 2002, respectively, and approximated 2.4% of the average funding under the program on an annualized basis in each period; these fee amounts represent the net incremental costs of the program to US Holdings and are reported in SG&A expenses.

The September 30, 2003 balance sheet reflects funding under the program of \$667 million, through sale of undivided interests in receivables by TXU Receivables Company, related to \$1.4 billion face amount of US Holdings trade accounts receivable. Funding under the program increased \$220 million for the nine month period ended September 30, 2003, primarily due to the program capacity increase of \$100 million and the effect of improved collection trends. Funding under the program for the nine month period ended September 30, 2002 increased \$141 million. Funding increases or decreases under the program are reflected as cash provided by or used in operating activities in the statement of cash flows.

Upon termination of the program, cash flows to US Holdings would be delayed as collections of sold receivables would be used by TXU Receivables Company to repurchase the undivided interests sold instead of purchasing new receivables. The level of cash flows would normalize in approximately 16 to 31 days. The trade accounts receivable balances on US Holdings' balance sheets represent the face amount of its receivables less the funding under the program and allowances for uncollectible accounts.

In June 2003, the program was amended to provide temporarily higher delinquency and default compliance ratios and temporary relief from the loss reserve formula, which allowed for increased funding under the program. The June amendment reflected the billing and collection delays previously experienced as a result of new systems and processes in TXU Energy and ERCOT for clearing customers' switching and billing data upon the transition to competition. In August 2003, the program was amended to extend the term to July 2004, as well as to extend the period providing temporarily higher delinquency and default compliance ratios through December 31, 2003.

Contingencies Related to Sale of Receivables Program — Although TXU Receivables Company expects to be able to pay its subordinated notes from the collections of purchased receivables, these notes are subordinated to the undivided interests of the financial institutions in those receivables, and collections might not be sufficient to pay the subordinated notes. The program may be terminated if either of the following events occurs:

- 1) all of the originators cease to maintain their required fixed charge coverage ratio and debt to capital (leverage) ratio;
- 2) the delinquency ratio (delinquent for 31 days) for the sold receivables, the default ratio (delinquent for 91 days or deemed uncollectible), the dilution ratio (reductions for discounts, disputes and other allowances) or the days collection outstanding ratio exceed stated thresholds and the financial institutions do not waive such event of termination. The thresholds apply to the entire portfolio of sold receivables, not separately to the receivables of each originator.

The delinquency and dilution ratios exceeded the relevant thresholds during the first four months of 2003, but waivers were granted. These ratios were affected by issues related to the transition to deregulation. Certain billing and collection delays arose due to implementation of new systems and processes within TXU Energy and ERCOT for clearing customers' switching and billing data. The billing delays have been resolved but, while improving, the lagging collection issues continue to impact the ratios. The implementation of new POLR rules by the Commission and strengthened credit and collection policies and practices have brought the ratios into consistent compliance with the program.

Under terms of the receivables sale program, all the originators are required to maintain specified fixed charge coverage and leverage ratios (or supply a parent guarantor that meets the ratio requirements). The failure by an originator or its parent guarantor, if any, to maintain the specified financial ratios would prevent that originator from selling its accounts receivable under the program. If all the originators and the parent guarantor, if any, fail to maintain the specified financial ratios so that there are no eligible originators, the facility would terminate. Prior to the August 2003 amendment extending the program, originator eligibility was predicated on the maintenance of an investment grade credit rating.

Financial Covenants, Credit Rating Provisions and Cross Default Provisions —The terms of certain financing arrangements of US Holdings contain financial covenants that require maintenance of specified fixed charge coverage ratios, shareholders' equity to total capitalization ratios and leverage ratios and/or contain minimum net worth covenants. TXU Energy's preferred membership interests (formerly subordinated notes) also limit its incurrence of additional indebtedness unless a leverage ratio and interest coverage test are met on a pro forma basis. As of September 30, 2003, US Holdings and its subsidiaries were in compliance with all such applicable covenants.

Certain financing and other arrangements of US Holdings contain provisions that are specifically affected by changes in credit ratings and also include cross default provisions. The material cross default provisions are described below.

Other agreements of US Holdings, including some of the credit facilities discussed above, contain terms pursuant to which the interest rates charged under the agreements may be adjusted depending on the credit ratings of US Holdings or its subsidiaries.

Cross Default Provisions

Certain financing arrangements of US Holdings contain provisions that would result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. Such provisions are referred to as "cross default" provisions.

A default by US Holdings or any subsidiary thereof on financing arrangements of \$50 million or more would result in a cross default under the \$1.4 billion US Holdings five-year revolving credit facility, the \$400 million US Holdings credit facility, the \$68 million US Holdings letter of credit reimbursement (which is no longer outstanding as of October 1, 2003) and credit facility agreement and \$30 million of TXU Mining senior notes (which have a \$1 million threshold).

A default by TXU Energy or Oncor or any subsidiary thereof in respect of indebtedness in a principal amount in excess of \$50 million would result in a cross default for such party under the TXU Energy/Oncor \$450 million revolving credit facility. Under this credit facility, a default by TXU Energy or any subsidiary thereof would cause the maturity of outstanding balances under such facility to be accelerated as to TXU Energy, but not as to Oncor. Also, under this credit facility, a default by Oncor or any subsidiary thereof would cause the maturity of outstanding balances to be accelerated under such facility as to Oncor, but not as to TXU Energy.

A default by TXU Corp. on indebtedness of \$50 million or more would result in a cross default under the new \$500 million five-year revolving credit facility.

A default or similar event under the terms of the TXU Energy preferred membership interests (formerly subordinated notes) that results in the acceleration (or other mandatory repayment prior to the mandatory redemption date) of such security or the failure to pay such security at the mandatory redemption date would result in a default under TXU Energy's \$1.25 billion senior unsecured notes.

TXU Energy has entered into certain mining and equipment leasing arrangements aggregating \$122 million that would terminate upon the default of any other obligations of TXU Energy owed to the lessor. In the event

of a default by TXU Mining, a subsidiary of TXU Energy, on indebtedness in excess of \$1 million, a cross default would result under the \$31 million TXU Mining leveraged lease and the lease would terminate.

The accounts receivable program also contains a cross default provision with a threshold of \$50 million applicable to each of the originators under the program. TXU Receivables Company and TXU Business Services Company each have a cross default threshold of \$50,000. If either an originator, TXU Business Services Company or TXU Receivables Company defaults on indebtedness of the applicable threshold, the facility could terminate.

TXU Energy enters into energy-related contracts, the master forms of which contain provisions whereby an event of default would occur if TXU Energy were to default under an obligation in respect of borrowings in excess of thresholds stated in the contracts, which thresholds vary.

US Holdings and its subsidiaries have other arrangements, including interest rate swap agreements and leases with cross default provisions, the triggering of which would not result in a significant effect on liquidity.

4. PREFERRED STOCK

	September 30, 2003	December 31, 2002
<u>Not Subject to Mandatory Redemption:</u>		
\$4.00 to \$5.08 dividend rate series.....	\$ 38	\$ 38
\$7.98 series.....	—	26
\$7.50 series	—	30
\$7.22 series	—	21
Total.....	<u>\$ 38</u>	<u>\$ 115</u>
<u>Subject to Mandatory Redemption:</u>		
\$6.98 series.....	\$ —	\$ 11
\$6.375 series	7	10
Total.....	<u>\$ 7</u>	<u>\$ 21</u>

As a result of the adoption of SFAS 150 on July 1, 2003 (see Note 1), US Holdings' preferred stock subject to mandatory redemption of \$7 million has been classified in the balance sheet at September 30, 2003 in liabilities (other current liabilities). The preferred stock not subject to mandatory redemption remains classified in shareholders' equity.

In September 2003, US Holdings called its mandatorily redeemable preferred stock for redemption, and on October 1, 2003, those shares were redeemed for an aggregate principal amount of \$7 million.

In July 2003, US Holdings redeemed all of the shares of its \$7.98 series, \$7.50 series and \$7.22 series of preferred stock not subject to mandatory redemption and the shares of its \$6.98 series of preferred stock subject to mandatory redemption for an aggregate amount of \$91 million.

5. SHAREHOLDERS' EQUITY

In August 2003, the Articles of Incorporation of TXU Holdings were amended to create two new classes of common stock: Class A common stock with voting rights and Class B common stock without voting rights. All the shares of Class A common stock and 5% of the shares of Class B common stock are held by TXU Corp., and 95% of the shares of Class B common stock are held by TXU Investments LLC, a wholly-owned, direct subsidiary of TXU Corp.

On July 1, 2003, US Holdings repurchased 5,312,500 shares of its common stock for \$212.5 million and on April 1, 2003, US Holdings repurchased 6,250,000 shares of its common stock for \$250 million. On November 15, 2002, US Holdings declared a cash dividend of \$250 million, which was paid to TXU Corp. on January 2, 2003.

The legal form of cash distributions to TXU Corp. has been both common stock repurchases and the payment of dividends. For accounting purposes, the cash distributions in the form of share repurchases are recorded as a return of capital.

Certain debt instruments and preferred securities of US Holdings contain provisions that restrict payment of dividends during any interest or distribution payment deferral period or while any payment default exists. An Oncor mortgage restricts the payment of dividends to the amount of Oncor's retained earnings. At September 30, 2003, US Holdings was in compliance with these provisions.

6. CONTINGENCIES

Guarantees —US Holdings has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions. These guarantees have been grouped based on similar characteristics and are described in detail below.

Residual value guarantees in operating leases —US Holdings is the lessee under various operating leases, entered into prior to January 1, that obligate it to guarantee the residual values of the leased facilities. At September 30, 2003, the aggregate maximum amount of residual values guaranteed was approximately \$272 million with an estimated residual recovery of approximately \$204 million. The average life of the lease portfolio is approximately six years.

Shared saving guarantees —US Holdings has guaranteed that certain customers will realize specified annual savings resulting from energy management services it has provided. In aggregate, the average annual savings have exceeded the annual savings guaranteed. The maximum potential annual payout is approximately \$8 million and the maximum total potential payout is approximately \$56 million. During the three months ended September 30, 2003, no shared savings contracts were executed. The average remaining life of the portfolio is approximately nine years.

Letters of credit —US Holdings has entered into various agreements that require letters of credit for financial assurance purposes. Approximately \$294 million of letters of credit were outstanding at September 30, 2003 to support existing floating rate pollution control revenue bond debt of approximately \$271 million. The letters of credit are available to fund the payment of such debt obligations. These letters of credit have expiration dates in 2003 and 2004; however, US Holdings intends to provide from either existing or new facilities for the extension, renewal or substitution of these letters of credit to the extent required for such floating rate debt or their remarketing as fixed rate debt.

US Holdings has outstanding letters of credit in the amount of \$32 million to support portfolio management margin requirements in the normal course of business. As of September 30, 2003, approximately 81% of the obligations supported by these letters of credit mature within one year, and substantially all of the remainder mature in the second year.

Surety bonds —US Holdings has outstanding surety bonds of approximately \$57 million to support performance under various contracts in the normal course of business. The term of the surety bond obligations is approximately two years.

Other —US Holdings has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee the principal, \$13 million at September 30, 2003, and interest on bonds issued by the agencies to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5.50% to 7%. US Holdings is required to make periodic payments equal to such principal and interest, including amounts assumed by a third party and reimbursed to US Holdings. In addition, US Holdings is obligated to pay certain variable costs of operating and maintaining the reservoirs. US Holdings has assigned to a municipality all its contract rights and obligations in connection with \$19 million remaining principal amount of bonds at

September 30, 2003, issued for similar purposes, which had previously been guaranteed by US Holdings. US Holdings is, however, contingently liable in the event of default by the municipality.

Legal Proceedings —On July 7, 2003, a lawsuit was filed by Texas Commercial Energy (TCE) in the United States District Court for the Southern District of Texas, Corpus Christi Division, against TXU Energy and certain of its subsidiaries, as well as various other wholesale market participants doing business in ERCOT, claiming generally that defendants engaged in market manipulation, in violation of antitrust and other laws, primarily during the period of extreme weather conditions in late February 2003. On August 6, 2003, the complaint was amended to omit one of the other defendants. On September 12, 2003, the TXU defendants filed a motion to dismiss the lawsuit, which is set for hearing on January 23, 2004. US Holdings believes that it has not committed any violation of the antitrust laws and the Commission's investigation of the market conditions in late February 2003 has not resulted in any findings adverse to TXU Energy. Accordingly, US Holdings believes that TCE's claims against TXU Energy and its subsidiary companies are without merit and intends to vigorously defend the lawsuit. US Holdings is unable to estimate any possible loss or predict the outcome of this action.

On April 28, 2003, a lawsuit was filed by a former employee of TXU Portfolio Management in the United States District Court for the Northern District of Texas, Dallas Division, against TXU Corp., TXU Energy and TXU Portfolio Management. Plaintiff asserts claims under Section 806 of Sarbanes-Oxley arising from plaintiff's employment termination and claims for breach of contract relating to payment of certain bonuses. Plaintiff seeks back pay, payment of bonuses and alternatively, reinstatement or future compensation, including bonuses. TXU Corp. believes the plaintiff's claims are without merit. The plaintiff was terminated as the result of a reduction in force, not as a reaction to any concerns the plaintiff had expressed, and plaintiff was not in a position with TXU Portfolio Management such that he had knowledge or information that would qualify the plaintiff to evaluate TXU Corp.'s financial statements or assess the adequacy of TXU Corp.'s financial disclosures. Thus, TXU Corp. does not believe that there is any merit to the plaintiff's claims under Sarbanes-Oxley. Accordingly, TXU Corp., TXU Energy and TXU Portfolio Management intend to vigorously defend the litigation. While TXU Corp., TXU Energy and TXU Portfolio Management dispute the plaintiff's claims, TXU Corp. is unable to predict the outcome of this litigation or the possible loss in the event of an adverse judgment.

On March 10, 2003, a lawsuit was filed by Kimberly P. Killebrew in the United States District Court for the Eastern District of Texas, Lufkin Division, against TXU Corp. and TXU Portfolio Management, asserting generally that defendants engaged in manipulation of the wholesale electric market, in violation of antitrust and other laws. This lawsuit was not served on TXU Corp. until mid-July 2003. This action is brought by an individual, alleged to be a retail consumer of electricity, on behalf of herself and as a proposed representative of a putative class of retail purchasers of electricity that are similarly situated. On September 15, 2003, defendants filed a motion to dismiss the lawsuit and a motion to transfer the case to the Northern District of Texas, Dallas Division. US Holdings believes that the plaintiff lacks standing to assert any antitrust claims against US Holdings or TXU Portfolio Management, and that defendants have not violated antitrust laws or other laws as claimed by the plaintiff. Therefore, US Holdings believes that plaintiff's claims are without merit and plans to vigorously defend the lawsuit. US Holdings is unable to estimate any possible loss or predict the outcome of this action.

Open-Access Transmission —At the state level, the Texas Public Utility Regulatory Act, as amended, requires owners or operators of transmission facilities to provide open access wholesale transmission services to third parties at rates and terms that are non-discriminatory and comparable to the rates and terms of the utility's own use of its system. The Commission has adopted rules implementing the state open access requirements for utilities that are subject to the Commission's jurisdiction over transmission services, such as Oncor.

On January 3, 2002, the Supreme Court of Texas issued a mandate affirming the judgment of the Court of Appeals that held that the pricing provisions of the Commission's open access wholesale transmission rules,

which had mandated the use of a particular rate setting methodology, were invalid because they exceeded the statutory authority of the Commission. On January 10, 2002, Reliant Energy Incorporated and the City Public Service Board of San Antonio each filed lawsuits in the Travis County, Texas, District Court against the Commission and each of the entities to whom they had made payments for transmission service under the invalidated pricing rules for the period January 1, 1997, through August 31, 1999, seeking declaratory orders that, as a result of the application of the invalid pricing rules, the defendants owe unspecified amounts. US Holdings and TXU SESCO Company are named defendants in both suits. Effective as of October 3, 2003, a global settlement among all parties to these lawsuits has been reached. The settlement was not material to US Holdings' financial position or results of operation, and requires that these suits be dismissed with prejudice.

General — US Holdings is involved in various other legal and administrative proceedings, the ultimate resolution of which should not have a material effect upon its financial position, results of operations or cash flows.

7. SEGMENT INFORMATION

US Holdings has two reportable business segments: TXU Energy and Oncor.

TXU Energy (formerly Energy segment) – consists of operations, which are principally in the competitive Texas market, involving power production (electricity generation), wholesale energy sales, retail energy sales and related services, and portfolio management, including risk management and certain trading activities.

Oncor (formerly Electric Delivery segment) – consists of regulated operations in Texas involving the transmission and distribution of electricity.

Effective with reporting for 2003, results for the TXU Energy segment exclude expenses incurred by the US Holdings holding company in order to present the segment on the same basis as the separate reporting for TXU Energy and as the results of the business are evaluated by management. The activities of the holding company consist primarily of servicing approximately \$160 million of debt. Prior year amounts are presented on the revised basis.

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Operating revenues:				
TXU Energy	\$ 2,453	\$ 2,420	\$ 6,304	\$ 6,238
Oncor	613	557	1,605	1,551
Eliminations	(444)	(441)	(1,175)	(1,257)
Consolidated	<u>\$ 2,622</u>	<u>\$ 2,536</u>	<u>\$ 6,734</u>	<u>\$ 6,532</u>
Regulated revenues included in operating revenues:				
TXU Energy	\$ —	\$ —	\$ —	\$ —
Oncor	613	557	1,605	1,551
Eliminations	(440)	(438)	(1,166)	(1,251)
Consolidated	<u>\$ 173</u>	<u>\$ 119</u>	<u>\$ 439</u>	<u>\$ 300</u>
Affiliated revenues included in operating revenues:				
TXU Energy	\$ 4	\$ 3	\$ 9	\$ 6
Oncor	440	438	1,166	1,251
Eliminations	(444)	(441)	(1,175)	(1,257)
Consolidated	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Income before cumulative effect of changes in accounting principles:				
TXU Energy	\$ 249	\$ 227	\$ 438	\$ 597
Oncor	126	96	239	232
Other	(4)	(3)	(16)	(12)
Consolidated	<u>\$ 371</u>	<u>\$ 320</u>	<u>\$ 661</u>	<u>\$ 817</u>

8. SUPPLEMENTARY FINANCIAL INFORMATION

Regulated Versus Unregulated Operations —

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Operating revenues:				
Regulated	\$ 613	\$ 557	\$ 1,605	\$ 1,551
Unregulated	2,453	2,420	6,304	6,238
Intercompany sales eliminations - regulated	(440)	(438)	(1,166)	(1,251)
Intercompany sales eliminations - unregulated	(4)	(3)	(9)	(6)
Total operating revenues	2,622	2,536	6,734	6,532
Costs and operating expenses:				
Cost of energy sold and delivery fees - unregulated*	1,100	1,095	2,870	2,407
Operating costs - regulated	175	174	524	493
Operating costs - unregulated	170	182	548	534
Depreciation and amortization - regulated	78	66	215	197
Depreciation and amortization - unregulated	100	116	308	342
Selling, general and administrative expenses - regulated	47	50	144	160
Selling, general and administrative expenses - unregulated	169	200	466	623
Franchise and revenue-based taxes - regulated	63	67	183	195
Franchise and revenue-based taxes - unregulated	25	28	85	94
Other income	(21)	(19)	(47)	(36)
Other deductions	10	3	13	8
Interest income	(2)	—	(11)	(1)
Interest expense and related charges	151	104	459	314
Total costs and expenses	2,065	2,066	5,757	5,330
Income before income taxes and cumulative effect of changes in accounting principles	\$ 557	\$ 470	\$ 977	\$ 1,202

* Includes cost of fuel consumed of \$402 million and \$419 million for the three months ended September 30, 2003 and 2002, and \$1,238 million and \$1,036 million for the nine months ended September 30, 2003 and 2002, respectively. The balance represents energy purchased for resale and delivery fees.

The operations of the TXU Energy segment are included above as unregulated, as the Texas market is open to competition. However, retail pricing to residential and small business customers in its historical service territory continues to be subject to transitional regulatory provisions.

Other Income and Deductions —

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Other income:				
Net gain on sale of properties and businesses	\$ 19	\$ 18	\$ 40	\$ 30
Lignite coal royalties	—	—	—	2
Equity portion of allowance for funds used during construction	1	1	3	3
Other	1	—	4	1
Total other income	\$ 21	\$ 19	\$ 47	\$ 36
Other deductions:				
Equity in losses of unconsolidated subsidiaries	\$ —	\$ 1	\$ —	\$ 2
Loss on retirement of debt	1	—	1	1
Asset write-off in strategic retail services business	5	—	5	—
Premium on redemption of preferred stock	3	—	3	—
Expenses related to canceled construction projects	2	2	4	5
Other	(1)	—	—	—
Total other deductions	\$ 10	\$ 3	\$ 13	\$ 8

Interest Expense and Related charges —

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Interest	\$ 146	\$ 104	\$ 444	\$ 312
Amortization of deferred debt costs	8	3	23	11
Allowance for borrowed funds used during construction and capitalized interest	(3)	(3)	(8)	(9)
Total interest expense and related charges	<u>\$ 151</u>	<u>\$ 104</u>	<u>\$ 459</u>	<u>\$ 314</u>

Regulatory Assets and Liabilities —

	September 30,	December 31
	2003	2002
Regulatory Assets:		
Generation-related regulatory assets subject to securitization	\$ 1,170	\$ 1,652
Generation-related regulatory assets-securitized	494	—
Securities reacquisition costs	123	124
Recoverable deferred income taxes — net	81	76
Other regulatory assets	<u>97</u>	<u>46</u>
Total regulatory assets	1,965	1,898
Regulatory Liabilities:		
Liability related to excess mitigation credit	39	170
Investment tax credit and protected excess deferred taxes	<u>91</u>	<u>98</u>
Total regulatory liabilities	<u>130</u>	<u>268</u>
Net regulatory assets	<u>\$ 1,835</u>	<u>\$ 1,630</u>

Included above are assets of \$1.8 billion at September 30, 2003 and December 31, 2002, that were not earning a return. Of the assets not earning a return, \$1.7 billion is expected to be recovered over the term of the securitization bonds issued by Oncor in August 2003 and expected to be issued in the first quarter of 2004 pursuant to the Settlement and a financing order. All other regulatory assets have a remaining recovery period of 12 to 49 years.

Included in other regulatory assets as of September 30, 2003 was \$43 million related to nuclear decommissioning liabilities.

Restricted Cash — As of September 30, 2003, all of the restricted cash of \$210 million from the net proceeds of Oncor's issuance of senior secured notes in December 2002 had been used to pay the interest and principal of Oncor's first mortgage bonds due March and April 2003. The remaining restricted cash reported in investments on the balance sheet as of September 30, 2003, included \$69 million held as collateral for outstanding letters of credit and \$6 million held by the trustee in connection with the transition bonds issued by Oncor in August 2003.

Accounts Receivable — At September 30, 2003 and December 31, 2002, accounts receivable of \$1.0 billion and \$1.4 billion are stated net of allowance for uncollectible accounts of \$74 million and \$72 million, respectively. During the nine months ended September 30, 2003, bad debt expense was \$71 million, account write-offs were \$65 million and other activity decreased the allowance for uncollectible accounts by \$4 million.

Accounts receivable included \$449 million and \$505 million of unbilled revenues at September 30, 2003 and December 31, 2002, respectively.

Intangible Assets —SFAS 142 became effective for US Holdings on January 1, 2002. SFAS 142 requires, among other things, the allocation of goodwill to reporting units based upon the current fair value of the reporting units, and the discontinuance of goodwill amortization. SFAS 142 also requires additional disclosures regarding intangible assets (other than goodwill) that are amortized or not amortized:

	<u>As of September 30, 2003</u>			<u>As of December 31, 2002</u>		
	Gross			Gross		
	Carrying	Accumulated		Carrying	Accumulated	
	<u>Amount</u>	<u>Amortization</u>	<u>Net</u>	<u>Amount</u>	<u>Amortization</u>	<u>Net</u>
Intangible assets subject to amortization (included in property, plant and equipment):						
Capitalized software.....	\$ 391	\$ 171	\$ 220	\$ 368	\$ 131	\$ 237
Land easements.....	176	66	110	180	61	119
Mineral rights and other.....	<u>31</u>	<u>21</u>	<u>10</u>	<u>31</u>	<u>20</u>	<u>11</u>
Total.....	<u>\$ 598</u>	<u>\$ 258</u>	<u>\$ 340</u>	<u>\$ 579</u>	<u>\$ 212</u>	<u>\$ 367</u>

Amortization expense for intangible assets was \$46 million and \$45 million for the nine months ended September 30, 2003 and 2002, respectively. At September 30, 2003, the remaining average useful lives of capitalized software, land easements and mineral rights noted above were 6 years, 69 years and 40 years, respectively.

At September 30, 2003 and December 31, 2002, goodwill of \$558 million was stated net of previously recorded accumulated amortization of \$67 million.

Commodity Contracts —At September 30, 2003 and December 31, 2002, current and noncurrent commodity contract assets totaling \$968 million and \$1.8 billion, respectively, are stated net of applicable credit (collection) and performance reserves totaling \$21 million and \$43 million, respectively. Performance reserves are provided for direct, incremental costs to settle the contracts.

Inventories by Major Category —

	<u>September 30,</u>	<u>December 31,</u>
	<u>2003</u>	<u>2002</u>
Materials and supplies.....	\$ 223	\$ 211
Fuel stock.....	75	70
Gas stored underground.....	<u>63</u>	<u>57</u>
Total inventories.....	<u>\$ 361</u>	<u>\$ 338</u>

Inventories reflect a \$22 million reduction as a result of the rescission of EITF 98-10 as discussed in Note 2.

Property, Plant and Equipment — As of September 30, 2003 and December 31, 2002, property, plant and equipment of \$16.6 billion and \$16.2 billion is stated net of accumulated depreciation and amortization of \$10.7 billion and \$10.4 billion, respectively.

As of September 30, 2003, substantially all of Oncor's electric utility property, plant and equipment (with a net book value of \$6.2 billion) was pledged as collateral for Oncor's first mortgage bonds and senior secured notes.

Derivatives and Hedges —US Holdings experienced net hedge ineffectiveness of \$10 million and \$24 million, reported as a gain in revenues, for the three and nine months ended September 30, 2003, respectively. For the three and nine months ended September 30, 2002, net hedge ineffectiveness of \$7 million and \$40 million, respectively, was reported as a loss in revenues. Hedge ineffectiveness is primarily related to hedges of anticipated sales from baseload generation.

As of September 30, 2003, it is expected that \$71 million of after-tax net losses accumulated in other comprehensive income, primarily related to commodities hedges, will be reclassified into earnings during the next twelve months. This amount represents the projected value of the hedges over the next twelve months relative to what would be recorded if the hedge transactions had not been entered into. The amount expected to be reclassified is not a forecasted loss incremental to normal operations, but rather it demonstrates the extent to which volatility in earnings and cash flows (which would otherwise exist) is mitigated through the use of cash flow hedges.

Affiliate Transactions — The following represent significant affiliate transactions of US Holdings:

Average daily short-term advances from affiliates during the three months ended September 30, 2003 and 2002 were \$702 million and \$575 million, respectively, and interest expense incurred on the advances was \$4 million and \$3 million, respectively. Average daily short-term advances from affiliates during the nine months ended September 30, 2003 and 2002 were \$845 million and \$1.1 billion, respectively, and interest expense incurred on the advances was \$17 million and \$23 million, respectively. The average interest rates for the three months ended September 30, 2003 and 2002 were 2.86% and 2.11%, respectively. The average interest rates for the nine months ended September 30, 2003 and 2002 were 2.76% and 2.43%, respectively.

TXU Business Services Company, a subsidiary of TXU Corp., charges US Holdings for certain financial, accounting, information technology, environmental, procurement and personnel services and other administrative services at cost. For the three months ended September 30, 2003 and 2002, these costs totaled \$79 million and \$105 million, respectively, and for the nine months ended September 30, 2003 and 2002 totaled \$254 million and \$319 million, respectively. These costs are reported in SG&A expenses.

US Holdings charges TXU Gas for customer and administrative services at cost. For the three months ended September 30, 2003 and 2002, these charges totaled \$14 million and \$16 million, respectively, and for the nine months ended September 30, 2003 and 2002 totaled \$43 million and \$45 million, respectively. These charges are largely reported as a reduction in SG&A expenses.

Supplemental Cash Flow Information — See Note 2 for the effects of adopting SFAS 143, which were noncash in nature. See Note 3 for discussion of the exchange of TXU Energy subordinated notes for preferred membership interests, which was a noncash transaction.

INDEPENDENT ACCOUNTANTS' REPORT

TXU US Holdings Company:

We have reviewed the accompanying condensed consolidated balance sheet of TXU US Holdings Company and subsidiaries (US Holdings) as of September 30, 2003, and the related condensed statements of consolidated income and of comprehensive income for the three-month and nine-month periods ended September 30, 2003 and 2002, and the condensed statements of consolidated cash flows for the nine-month periods ended September 30, 2003 and 2002. These financial statements are the responsibility of US Holdings' management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of US Holdings as of December 31, 2002, and the related statements of consolidated income, comprehensive income, cash flows and shareholders' equity for the year then ended (not presented herein); and in our report (which includes an explanatory paragraph related to the adoption of Statement of Financial Accounting Standards No. 142), dated February 14, 2003 (and March 19, 2003 as to Note 18 therein), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 1 to the Notes to Financial Statements, US Holdings changed its method of accounting for asset retirement obligations in 2003 in connection with the adoption of Statement of Financial Accounting Standards No. 143, "Asset Retirement Obligations," changed its method of accounting for certain contracts with the rescission of Emerging Issues Task Force Issue 98-10 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," and changed its method of classifying mandatorily redeemable preferred securities in connection with the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

DELOITTE & TOUCHE LLP

Dallas, Texas

November 11, 2003

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS

Description of Business —US Holdings is a holding company for TXU Energy and Oncor. US Holdings is a wholly-owned subsidiary of TXU Corp., a Texas corporation. US Holdings engages, through TXU Energy, in power production (electricity generation), wholesale energy sales, retail energy sales and related services, portfolio management, including risk management and certain trading activities, as well as, through Oncor, in the transmission and distribution of electricity. US Holdings' consolidated operations consist of its TXU Energy and Oncor business segments and the activities of the holding company, which consists primarily of servicing approximately \$160 million in debt. See discussion of reportable business segments in Note 7.

Dollar amounts in the following tables are stated in millions of US dollars, unless otherwise noted.

RESULTS OF OPERATIONS

Consolidated US Holdings

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Reference is made to comparisons of results by business segment following the discussion of consolidated results presented below. The business segment comparisons provide additional detail and quantification of items affecting financial results.

US Holdings' operating revenues increased \$86 million, or 3%, to \$2.6 billion in 2003. The revenue growth reflected an increase in the Oncor segment of \$56 million, or 10%, to \$613 million and an increase in the TXU Energy segment of \$33 million, or 1%, to \$2.5 billion. The growth in revenues in the Oncor segment reflected higher tariffs, volume growth and higher disconnect/reconnect fees. Revenue performance in the TXU Energy segment reflected higher average pricing that was largely offset by the effect of lower retail sales volumes and lower results from portfolio management activities.

Gross Margin

	Three Months Ended September 30,			
	2003	% of Revenue	2002	% of Revenue
Operating revenues	\$ 2,622	100%	\$ 2,536	100%
Costs and expenses:				
Cost of energy sold and delivery fees	1,100	42%	1,095	43%
Operating costs	345	13%	356	14%
Depreciation and amortization related to operating assets	165	6%	170	7%
Gross margin	<u>\$ 1,012</u>	<u>39%</u>	<u>\$ 915</u>	<u>36%</u>

Gross margin is considered a key operating metric as it measures the effect of changes in sales volumes and pricing versus the variable and fixed costs of energy sold, whether generated or purchased, as well as the costs to deliver energy.

The depreciation and amortization expense included in gross margin excludes \$13 million and \$12 million of such expense for the three months ended September 30, 2003 and 2002, respectively, that is not directly related to generation and delivery property, plant and equipment.

Gross margin increased \$97 million, or 11%, to \$1.0 billion in 2003. This increase reflected growth in the TXU Energy segment of \$55 million, or 9%, to \$649 million and an increase in the Oncor segment of \$43

million, or 13% to \$363 million. The increase in the TXU Energy segment reflected higher average pricing, partially offset by higher average costs of energy sold, the lower portfolio management results and the effect of sales volumes declines. Increased costs of energy sold reflected higher natural gas prices. Mark-to-market accounting for commodity contracts increased revenues and gross margin by \$1 million in 2003 (as compared to accounting on a settlement basis), and increased results by \$8 million in 2002. The increase in the Oncor segment reflected higher revenues, partially offset by higher depreciation and amortization.

A decrease in depreciation and amortization (including amounts shown in the gross margin table above) of \$4 million, or 2%, to \$178 million reflected a decrease of \$16 million primarily from adjusted depreciation rates related to TXU Energy's generation fleet, effective with second quarter reporting, partially offset by a \$12 million increase, primarily reflecting Oncor's amortization of regulatory assets commencing with the issuance of securitization bonds in August 2003. The effect on Oncor's revenues of the higher distribution rates associated with the issuance of securitization bonds is offset by the amortization expense.

SG&A expense decreased \$34 million, or 14%, to \$216 million in 2003. The decrease was driven by the TXU Energy segment and reflected nonrecurring costs incurred in 2002 related to the transition to competition and the effects of cost reduction initiatives.

Franchise and revenue-based taxes decreased \$7 million, or 7%, to \$88 million due primarily to lower retail revenues on which gross receipts taxes are based.

Other income increased \$2 million to \$21 million in 2003. Other income in both periods included \$18 million of amortization of a gain on the sale of two generation plants in 2002.

Other deductions increased \$7 million to \$10 million in 2003. The 2003 amount included charges related to the scaling-back of the strategic retail services business of \$5 million and premiums paid on the redemption of preferred stock of \$3 million.

Interest income of \$2 million in 2003 reflected higher cash balances on hand as credit facilities were drawn down in the fourth quarter of 2002 to enhance liquidity.

Interest expense and related charges increased \$47 million, or 45%, to \$151 million in 2003. The increase was driven by higher average interest rates resulting in part from the refinancing of short-term borrowings with higher-rate long-term debt.

The effective income tax rate was 33.4% in 2003 compared to 31.9% in 2002. The increase was primarily due to adjustments recorded in 2002 arising from the reconciliation of the final 2001 federal income tax return to the previously estimated tax provision.

Net income increased \$51 million, or 16%, to \$371 million in 2003. This performance reflected an increase of \$30 million, or 31%, to \$126 million in the Oncor segment reflecting the increased revenues, partially offset by higher depreciation and amortization and increased interest expense. Net income in the TXU Energy segment rose \$22 million, or 10%, to \$249 million due to higher gross margin and decreased SG&A expenses, partially offset by higher interest expense. Net pension and postretirement benefit costs, reported in operating costs and SG&A expenses, reduced net income by \$14 million in 2003 and \$6 million in 2002.

Consolidated US Holdings

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Reference is made to comparisons of results by business segment following the discussion of consolidated results presented below. The business segment comparisons provide additional detail and quantification of items affecting financial results.

US Holdings' operating revenues increased \$202 million, or 3%, to \$6.7 billion in 2003. The revenue growth reflected an increase in the TXU Energy segment of \$66 million, or 1%, to \$6.3 billion and an increase in

the Oncor segment of \$54 million, or 3%, to \$1.6 billion. Revenues in the TXU Energy segment reflected higher average pricing largely offset by the effect of lower sales volumes. The growth in revenues in the Oncor segment reflected higher tariffs and higher disconnect/reconnect fees. Consolidated revenue growth also reflected an \$82 million reduction in the intercompany sales elimination, reflecting lower sales by Oncor to TXU Energy as sales to non-affiliated REPs increased.

Gross Margin

	Nine Months Ended September 30,			
	2003	% of Revenue	2002	% of Revenue
Operating revenues	\$ 6,734	100%	\$ 6,532	100%
Costs and expenses:				
Cost of energy sold and delivery fees	2,870	43%	2,407	37%
Operating costs	1,072	16%	1,027	16%
Depreciation and amortization related to operating assets	485	7%	499	7%
Gross margin	<u>\$ 2,307</u>	<u>34%</u>	<u>\$ 2,599</u>	<u>40%</u>

The depreciation and amortization expense included in gross margin excludes \$38 million and \$40 million of such expense for the nine months ended September 30, 2003 and 2002, respectively, that is not directly related to generation and delivery property, plant and equipment.

Gross margin decreased \$292 million, or 11%, to \$2.3 billion in 2003. This decrease reflected a decline in the TXU Energy segment of \$298 million, or 17%, to \$1.4 billion and an increase in the Oncor segment of \$6 million, or 1%, to \$875 million. The decline in the TXU Energy segment reflected higher average energy costs and lower retail sales volumes, partially offset by higher average sales prices. The gross margin increase in the Oncor segment was driven by the higher revenues.

Depreciation and amortization (including amounts shown in the gross margin table above) decreased \$16 million, or 3%, to \$523 million reflecting a decrease of \$25 million due to adjusted depreciation rates related to TXU Energy's generation fleet, as discussed above, partially offset by \$8 million of amortization of regulatory assets commencing with the issuance of the securitization bonds in August 2003. The effect on revenues of the higher distribution rates associated with the issuance of the securitization bonds is offset by the amortization expense.

SG&A expense decreased \$173 million, or 22%, to \$610 million in 2003. The decrease was driven by the TXU Energy segment and reflected cost reductions, primarily lower staffing and related administrative expenses, as well as lower levels of bad debt expense reflecting billing and collection delays experienced in 2002 in connection with the transition to competition and initiatives implemented in 2003 to reduce such expenses.

Franchise and revenue-based taxes decreased \$21 million, or 7%, to \$268 million due primarily to lower retail revenues on which gross receipts taxes are based.

Other income increased \$11 million to \$47 million in 2003. Other income in both periods included \$30 million of amortization of a gain on the 2002 sale of two generation plants. The 2003 period also included a \$9 million gain on the sale of certain retail commercial and industrial gas operations.

Other deductions increased \$5 million to \$13 million in 2003. The 2003 amount included \$5 million in charges related to the scaling-back of the strategic retail services business. Amounts in both periods included storage and other incidental expenses related to two canceled generation plant construction projects.

Interest income increased \$10 million to \$11 million in 2003, primarily reflecting higher cash balances on hand as credit facilities were drawn down in the fourth quarter of 2002 and remained outstanding through April 2003 to enhance liquidity.

Interest expense and related charges increased \$145 million, or 46%, to \$459 million in 2003. The increase reflected higher average interest rates and higher average debt levels. Higher average rates were due in part to replacement of short-term borrowings with higher rate long-term debt.

The effective tax rate of 32.3% in 2003 was comparable to the 32.0% rate in 2002, reflecting the effect of the federal tax return related adjustment recorded in 2002, as discussed above, largely offset by the effect of comparable lignite depletion on lower pretax earnings in 2003.

Income before cumulative effect of changes in accounting principles declined \$156 million, or 19%, to \$661 million in 2003. Net income in the TXU Energy segment declined \$159 million, or 27%, to \$438 million reflecting the lower gross margin and higher interest expense, partially offset by the lower SG&A and depreciation and amortization expenses. Net income in the Oncor segment rose \$7 million, or 3%, to \$239 million reflecting higher revenues, partially offset by higher interest and operating expenses. Net pension and postretirement benefit costs, reported in operating costs and SG&A expenses, reduced net income by \$41 million in 2003 and \$23 million in 2002.

The cumulative effect of changes in accounting principles, representing an after-tax charge of \$58 million, reflects the rescission of EITF 98-10 and the adoption of SFAS 143. See Note 2 to Financial Statements for further discussion.

COMMODITY CONTRACTS AND MARK-TO-MARKET ACTIVITIES

The table below summarizes the changes in commodity contract assets and liabilities for the nine months ended September 30, 2003. The net increase, excluding "cumulative effect of change in accounting principle" and "other activity" as described below, of \$34 million represents the net favorable effect of mark-to-market accounting on earnings for the nine months ended September 30, 2003. This effect represents the difference between earnings under mark-to-market accounting versus accounting for gains and losses upon settlement of the contracts.

Balance of net commodity contract assets at December 31, 2002	\$ 316
Cumulative effect of change in accounting principle (1)	(75)
Settlements of positions included in the opening balance (2)	(99)
Unrealized mark-to-market valuations of positions held at end of period (3)	133
Other activity (4)	<u>(6)</u>
Balance of net commodity contract assets at September 30, 2003	<u>\$ 269</u>

(1) Represents a portion of the pre-tax cumulative effect of the rescission of EITF 98-10 (see Note 2 to Financial Statements).

(2) Represents unrealized mark-to-market valuations of these positions recognized in earnings as of the beginning of the period.

(3) There were no significant changes in fair value attributable to changes in valuation techniques.

(4) Includes the initial values of positions involving the receipt or payment of cash, such as option premiums, the amortization of such values and the sale of certain retail commercial and industrial gas operations. These activities have no effect on unrealized mark-to-market valuations.

As a result of guidance provided in EITF 02-3, US Holdings has not recognized origination gains on commercial/industrial retail contracts in 2003. (See Note 2 to Financial Statements.)

Maturity Table —Of the net commodity contract asset balance above at September 30, 2003, the amount representing unrealized mark-to-market net gains that have been recognized in current and prior years' earnings is \$291 million. The offsetting net liability of \$22 million included in the September 30, 2003 balance consists of unamortized net option premiums received. The following table presents the unrealized mark-to-market balance at September 30, 2003, scheduled by contractual settlement dates of the underlying positions.

<u>Maturity dates of unrealized net mark-to-market balances at September 30, 2003</u>					
<u>Source of fair value</u>	<u>Maturity less than 1 year</u>	<u>Maturity of 1-3 years</u>	<u>Maturity of 4-5 years</u>	<u>Maturity in Excess of 5 years</u>	<u>Total</u>
Prices actively quoted	\$ 7	\$ 10	\$	\$	\$ 17
Prices provided by other external sources.....	204	60	3	(1)	266
Prices based on models	(6)	10	4	—	8
Total	<u>\$205</u>	<u>\$80</u>	<u>\$ 7</u>	<u>\$ (1)</u>	<u>\$ 291</u>
Percentage of total fair value.....	70%	28%	2%	0%	100%

As the above table indicates, approximately 98% of the unrealized mark-to-market valuations at September 30, 2003 mature within three years. This is reflective of the terms of the positions and the methodologies employed in valuing positions for periods where there is less market liquidity and visibility. The "prices actively quoted" category reflects only exchange traded contracts with active quotes available through 2006. The "prices provided by other external sources" category represents forward commodity positions at locations for which over-the-counter broker quotes are available. Over-the-counter quotes for power and natural gas generally extend through 2005 and 2010, respectively. The "prices based on models" category contains the value of all non-exchange traded options, valued using industry accepted option pricing models. In addition, this category contains other contractual arrangements which may have both forward and option components. In many instances, these contracts can be broken down into their component parts and modeled as simple forwards and options based on prices actively quoted. As the modeled value is ultimately the result of a combination of prices from two or more different instruments, it has been included in this category.

SEGMENTS

TXU Energy

Financial Results

	Three Months Ended September 30,		Nine Months Ended September 30,.....	
	2003	2002	2003	2002
Operating revenues.....	\$ 2,453	\$ 2,420	\$ 6,304	\$ 6,238
Costs and expenses:				
Cost of energy sold and delivery fees.....	1,543	1,536	4,043	3,662
Operating costs.....	171	183	550	536
Depreciation and amortization.....	100	116	308	342
Selling, general and administrative expenses	168	199	465	623
Franchise and revenue-based taxes	29	27	84	83
Other income	(20)	(18)	(44)	(33)
Other deductions	8	3	13	8
Interest income			(3)	(8)
Interest expense and related charges	<u>83</u>	<u>46</u>	<u>246</u>	<u>154</u>
Total costs and expenses	<u>2,082</u>	<u>2,092</u>	<u>5,662</u>	<u>5,367</u>
Income before income taxes and cumulative effect of changes in accounting principles	371	328	642	871
Income tax expense	<u>122</u>	<u>101</u>	<u>204</u>	<u>274</u>
Income before cumulative effect of changes in accounting principles	<u>\$ 249</u>	<u>\$ 227</u>	<u>\$ 438</u>	<u>\$ 597</u>

TXU Energy

Segment Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Operating statistics:				
Retail electric sales volumes (GWh)	23,450	27,394	62,652	72,551
Wholesale electric sales volumes (GWh).....	<u>10,677</u>	<u>9,255</u>	<u>26,512</u>	<u>22,569</u>
Total electric sales volumes (GWh)	<u>34,127</u>	<u>36,649</u>	<u>89,164</u>	<u>95,120</u>
Retail electric customers (end of period & in thousands-number of meters)			2,617	2,763
Operating revenues (millions of dollars):				
Retail electric:				
Residential	\$ 1,139	\$ 1,093	\$ 2,631	\$ 2,569
Commercial and industrial	<u>847</u>	<u>839</u>	<u>2,427</u>	<u>2,720</u>
Total	1,986	1,932	5,058	5,289
Wholesale electric	406	302	924	657
Portfolio management activities	16	152	169	201
Other revenues	<u>45</u>	<u>34</u>	<u>153</u>	<u>91</u>
Total operating revenues	<u>\$ 2,453</u>	<u>\$ 2,420</u>	<u>\$ 6,304</u>	<u>\$ 6,238</u>
Weather (average for service territory)				
Percent of normal:				
Cooling degree days	99.0%	99.8%	101.0%	102.1%
Heating degree days.....	%	%	102.6%	98.8%

Weather data is obtained from Meteorlogix, an independent company that collects weather data from reporting stations of the National Oceanic and Atmospheric Administration (a federal agency under the US Department of Commerce).

TXU Energy

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Effective with reporting for 2003, results for the segment exclude expenses incurred by the US Holdings parent company in order to present the segment on the same basis as the separate reporting for TXU Energy and as the results of the business are evaluated by management. The activities of the parent company consist primarily of the servicing of approximately \$160 million of debt. Prior year amounts are presented on the revised basis.

Operating revenues increased \$33 million, or 1%, to \$2.5 billion in 2003. Retail and wholesale electric revenues increased \$158 million, or 7%, to \$2.4 billion, reflecting a \$312 million increase due to higher average prices, partially offset by a \$154 million reduction due to lower sales volumes. The \$312 million favorable price variance reflects increased price-to-beat rates, due to approved fuel factor increases, higher pricing in the commercial and industrial business and increased wholesale prices, all resulting from higher natural gas costs. The \$154 million unfavorable volume variance reflects a 7% decline in total sales volumes on a 14% decline in retail electric sales volumes due to increased competitive activity, primarily in the commercial and industrial segment of the market, partially offset by a 15% increase in wholesale electric volumes, reflecting a partial shift in the commercial and industrial customer base from retail to wholesale services. Residential and small business customer counts at September 30, 2003 declined 3% from year-end 2002. Results from portfolio management activities declined \$136 million. Such results include realized and unrealized gains and losses from risk management activities, and the decline reflects the effect of market price movements on commodity contracts entered into to hedge exposures.

Gross Margin

	Three Months Ended September 30,			
	<u>2003</u>	<u>% of Revenue</u>	<u>2002</u>	<u>% of Revenue</u>
Operating revenues.....	\$ 2,453	100%	\$ 2,420	100%
Costs and expenses:				
Cost of energy sold and delivery fees.....	1,543	63%	1,536	63%
Operating costs.....	171	7%	183	8%
Depreciation and amortization related to generation assets	<u>90</u>	<u>4%</u>	<u>107</u>	<u>4%</u>
Gross margin	<u>\$ 649</u>	<u>26%</u>	<u>\$ 594</u>	<u>25%</u>

The depreciation and amortization expense reported in the gross margin amounts above excludes \$10 million and \$9 million of such expense for the three months ended September 30, 2003 and 2002, respectively, that is not directly related to generation property, plant and equipment.

Gross margin increased \$55 million, or 9%, to \$649 million in 2003. The increase reflected higher average retail and wholesale sales prices, partially offset by higher average costs of energy sold, lower portfolio management results and the effect of volume declines. Increased costs of energy sold were driven by higher natural gas prices. As nuclear generation is the lowest marginal cost source of power production, average cost of energy sold was unfavorably impacted by approximately \$20 million due to an outage at the nuclear generation facility to repair a reactor coolant water pump. Higher average costs of energy sold were largely offset by a net reduction of \$19 million in the retail clawback accrual principally because competition in the small commercial segment of retail operations has resulted in TXU Energy not retaining more than 60% of its historical power consumption in this segment. Accordingly, TXU Energy does not expect to fund the related retail clawback credit under the Settlement Plan. Mark-to-market accounting for commodity contracts increased revenues and gross margin by \$1 million in 2003 and by \$8 million in 2002 (as compared to accounting on a settlement basis).

Operating costs decreased \$12 million, or 7%, to \$171 million in 2003 due primarily to timing of repair and maintenance expenses. Depreciation and amortization related to generation assets decreased \$17 million, or 16%, to \$90 million in 2003. Of the decrease, \$12 million represented the effect of adjusted depreciation rates related to the generation fleet, effective with second quarter reporting. The adjusted rates reflect an extension in the estimated depreciable life of the nuclear generation facility of approximately 11 years (to 2041) to better reflect its useful life, partially offset by higher depreciation rates for lignite and gas facilities to reflect investments in emissions equipment made in recent years.

A decrease in depreciation and amortization (including amounts shown in the gross margin table above) of \$16 million, or 14%, to \$100 million in 2003 was driven primarily by the adjusted depreciation rates related to TXU Energy's generation fleet as discussed above.

SG&A expenses declined \$31 million, or 16%, to \$168 million in 2003. This decrease reflected approximately \$16 million of nonrecurring costs incurred in 2002 related to the transition to competition and \$18 million in lower costs in the strategic retail services business with the scaling-back of its operations, partially offset by \$8 million in higher bad debt expense.

Franchise and revenue-based taxes increased \$2 million, or 7%, to \$29 million in 2003 reflecting an increase in state franchise taxes.

Other income increased \$2 million to \$20 million in 2003. Other income in both periods included \$18 million of amortization of a gain on the sale of two generation plants in 2002.

Other deductions increased \$5 million to \$8 million in 2003. The 2003 amount included \$5 million in charges related to the scaling-back of the strategic retail services business.

Interest expense and related charges increased \$37 million, or 80%, to \$83 million in 2003. The increase reflects \$29 million due to higher average rates, \$3 million due to higher average debt levels and \$5 million in amortization of the discount on the exchangeable subordinated notes issued by TXU Energy in November 2002. (The notes were subsequently exchanged by TXU Energy for exchangeable preferred membership interests.) Higher average rates were due in part to replacement of short-term borrowings with higher rate long-term debt.

The effective income tax rate increased to 32.9% in 2003 from 30.8% in 2002. The increase was primarily due to adjustments recorded in 2002 arising from the reconciliation of the final 2001 federal income tax return to the previously recorded estimated tax provision.

Income before cumulative effect of changes in accounting principles increased \$22 million, or 10%, to \$249 million in 2003. The increase was driven by the higher gross margin and the decreased SG&A expenses, partially offset by the increase in interest expense. Net pension and postretirement benefit costs reduced net income by \$9 million in 2003 and \$4 million in 2002.

TXU Energy

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Operating revenues increased \$66 million, or 1%, to \$6.3 billion in 2003. Retail and wholesale electric revenues increased \$36 million, or 1%, to \$6 billion, reflecting a \$408 million increase due to higher average prices partially offset by a \$372 million reduction due to lower sales volumes. The \$408 million favorable price variance reflects increased price-to-beat rates, due to approved fuel factor increases, higher pricing in the commercial and industrial business and increased wholesale prices, all resulting from higher natural gas costs. The \$372 million unfavorable volume variance reflects a 6% decline in total sales volumes on a 14% decline in retail electric sales volumes due to the effects of increased competitive activity, primarily in the commercial and industrial segment of the market, partially offset by a 17% increase in wholesale electric volumes

reflecting a partial shift in the commercial and industrial customer base from retail to wholesale services. Residential and small business customer counts at September 30, 2003 declined 3% from year-end 2002. Results from portfolio management activities declined \$32 million. Such results include realized and unrealized gains and losses from risk management activities, and the decline reflects the effect of market price movements on commodity contracts entered into to hedge exposures. Other revenues increased \$62 million, reflecting increased activity related to a previously existing contract in the small strategic retail services business, higher late fees on accounts receivable and increased pipeline transportation and other service revenues.

Gross Margin

	Nine Months Ended September 30,			
	2003	% of Revenue	2002	% of Revenue
Operating revenues.....	\$ 6,304	100%	\$ 6,238	100%
Costs and expenses:				
Cost of energy sold and delivery fees.....	4,043	64%	3,662	59%
Operating costs.....	550	9%	536	8%
Depreciation and amortization related to generation assets	<u>279</u>	<u>4%</u>	<u>310</u>	<u>5%</u>
Gross margin.....	<u>\$ 1,432</u>	<u>23%</u>	<u>\$ 1,730</u>	<u>28%</u>

The depreciation and amortization expense included in gross margin excludes \$29 million and \$32 million of such expense for the nine months ended September 30, 2003 and 2002, respectively, that is not directly related to generation property, plant and equipment.

Gross margin decreased \$298 million, or 17%, to \$1.4 billion in 2003. The decrease reflected increased average costs of energy sold and lower retail sales volumes, partially offset by higher average retail and wholesale sales prices. Increased energy costs were driven by higher natural gas prices. As nuclear generation is the lowest marginal cost source of power production, average cost of energy sold was unfavorably impacted by approximately \$45 million due to outages in May and July of 2003 due to a lightning strike on the transmission system and pump repairs, respectively. Higher average costs of energy sold were partially offset by a net reduction of \$19 million in the retail clawback accrual as discussed above. Mark-to-market accounting for commodity contracts increased revenues and gross margin by \$34 million in 2003 and decreased results by \$4 million in 2002 (as compared to accounting on a settlement basis).

Operating costs rose \$14 million, or 3%, to \$550 million reflecting increased activity related to a previously existing contract in the strategic retail services business. Depreciation and amortization related to generation assets decreased \$31 million, or 10%, to \$279 million. Of this decline, \$25 million represented the effect of adjusted depreciation rates related to TXU Energy's generation fleet as discussed above.

A decrease in depreciation and amortization (including amounts shown in the gross margin table above) of \$34 million, or 10%, to \$308 million in 2003 reflected adjusted depreciation rates related to TXU Energy's generation fleet as discussed above.

SG&A expenses declined \$158 million, or 25%, to \$465 million in 2003. This decrease reflected cost reductions, primarily lower staffing and related administrative expenses, totaling approximately \$70 million and reflecting the completion of the transition to competition in Texas and the industry-wide decline in portfolio management activities, as well as \$20 million from the scaling-back of the strategic retail services operations. Lower SG&A expenses also reflected \$53 million in lower bad debt expense, due to the effect of billing and collection delays experienced in 2002 in connection with the transition to competition and initiatives implemented in 2003 to reduce such expenses.

Other income increased by \$11 million to \$44 million in 2003. Other income in both periods included \$30 million of amortization of a gain on the sale of two generation plants in 2002. The 2003 period also included a \$9 million gain on the sale of certain retail commercial and industrial gas operations.

Other deductions increased by \$5 million, or 63%, to \$13 million in 2003. The 2003 amount included \$5 million in charges related to the scaling-back of the strategic retail services business. Other deductions in both years included storage and other incidental expenses related to two canceled generation plant construction projects.

Interest income declined by \$5 million, or 63%, to \$3 million in 2003 primarily due to lower average advances to affiliates.

Interest expense and related charges increased \$92 million, or 60%, to \$246 million in 2003. The increase reflects \$63 million due to higher average interest rates and fees, \$14 million due to higher average debt levels and \$15 million in amortization of the discount on the exchangeable subordinated notes issued in 2002. (The notes were subsequently exchanged by TXU Energy for exchangeable preferred membership interests.) Higher average rates were due in part to replacement of short-term borrowings with higher rate long-term debt.

The effective income tax rate of 31.8% in 2003 was comparable to the 31.5% rate in 2002, reflecting the effect of the federal tax return related adjustment recorded in 2002, as discussed above, largely offset by the effect of comparable lignite depletion on lower pretax earnings in 2003.

Income before cumulative effect of changes in accounting principles decreased \$159 million, or 27%, to \$438 million in 2003. The decline was driven by the decrease in gross margin and the increase in interest expense, partially offset by decreased SG&A and depreciation and amortization expenses. Net pension and postretirement benefit costs reduced net income by \$27 million in 2003 and by \$15 million in 2002.

Oncor

Financial Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Operating revenues	\$613	\$557	\$ 1,605	\$ 1,551
Costs and expenses:				
Operating costs.....	175	174	524	493
Depreciation and amortization	78	66	215	197
Selling, general and administrative expenses	47	50	144	160
Franchise and revenue-based taxes.....	63	67	183	195
Other income.....	(2)	(1)	(6)	(3)
Interest income.....	(14)	(11)	(43)	(34)
Interest expense and related charges.....	<u>75</u>	<u>66</u>	<u>230</u>	<u>193</u>
Total cost and expenses	<u>422</u>	<u>411</u>	<u>1,247</u>	<u>1,201</u>

Income before income taxes.....	191	146	358	350
Income tax expense.....	<u>65</u>	<u>50</u>	<u>119</u>	<u>118</u>
Net Income.....	<u>\$126</u>	<u>\$ 96</u>	<u>\$ 239</u>	<u>\$ 232</u>

Segment Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Operating statistics:				
Electric energy delivered (GWh) (a)	31,881	30,040	80,167	79,858
Electric points of delivery (end of period and in thousands)			2,920	2,902
Operating revenues (millions of dollars):				
TXU Energy	\$ 441	\$ 438	\$1,167	\$1,252
Non-affiliated	172	119	438	299
Total electric energy delivery	<u>\$ 613</u>	<u>\$ 557</u>	<u>\$1,605</u>	<u>\$1,551</u>

(a) 2002 data revised.

Oncor

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Oncor's operating revenues increased \$56 million, or 10%, to \$613 million in 2003. Higher tariffs provided \$22 million of this increase, reflecting transmission rate increases approved in 2003 (\$14 million) and a distribution rate increase associated with the issuance of transition (securitization) bonds in August 2003 (\$8 million). (See discussion under "Regulation and Rates.") The higher revenues also reflected lower unbilled revenues in 2002 of approximately \$15 million resulting from billing delays associated with the transition to competition, as previously disclosed. Higher volumes, principally associated with large commercial and industrial customers, resulted in a \$10 million increase in revenues. Increased disconnect/reconnect fees due primarily to new POLR rules in 2003 generated an \$8 million increase in revenues.

Gross Margin

	Three Months Ended September 30,			
	2003	% of Revenue	2002	% of Revenue
Operating revenues	\$ 613	100%	\$ 557	100%
Costs and expenses:				
Operating costs	175	29%	174	31%
Depreciation and amortization related to transmission and distribution assets	75	12%	63	11%
Gross margin	<u>\$ 363</u>	<u>59%</u>	<u>\$ 320</u>	<u>58%</u>

The depreciation and amortization expense included in gross margin excludes \$3 million of such expense for the three months ended September 30, 2003 and 2002 that is not directly related to delivery property, plant and equipment.

Gross margin increased \$43 million, or 13%, to \$363 million in 2003, driven by higher revenues of \$56 million, partially offset by higher depreciation of \$12 million. The increase in depreciation of \$12 million, or 19%, to \$75 million reflects \$3 million in higher depreciation due to investments in delivery facilities to support growth and normal replacements of equipment and \$8 million in amortization of regulatory assets commencing with the issuance of securitization bonds in August 2003. The effect on revenues of the higher distribution rates associated with the issuance of the securitization bonds is offset by the related amortization expense. Operating

costs were about even with the prior year reflecting an increase in third-party transmission costs of \$8 million, largely offset by lower vegetation management and overhead distribution lines maintenance costs of \$5 million.

SG&A expenses decreased \$3 million, or 6%, to \$47 million due primarily to a \$6 million decrease in outside services and consulting expenses arising from cost saving initiatives implemented in late 2002 and the completion of competitive market transition activities and a \$3 million decrease in bad debt expense, partially offset by a \$5 million increase in employee benefit costs.

Franchise and revenue-based taxes declined \$4 million, or 6%, to \$63 million in 2003 due primarily to lower revenues on which gross receipts taxes are based.

Interest income increased \$3 million in 2003 reflecting a \$6 million increase in reimbursements from TXU Energy for higher carrying costs on regulatory assets (see discussion of higher average interest rates below), partially offset by \$4 million in lower interest from TXU Energy on the excess mitigation credit note receivable due to principal payments (see discussion under "Regulation and Rates").

Interest expense and related charges increased by \$9 million, or 14%, to \$75 million in 2003. The increase reflects \$12 million due to higher average interest rates on borrowings, partially offset by \$4 million due to lower interest credited to customers related to the excess mitigation credits. The increase in average interest rates reflected the refinancing of affiliate borrowings with higher rate long-term debt issuances.

The effective income tax rate decreased slightly to 34.0% in 2003 from 34.2% in 2002.

Net income increased \$30 million, or 31%, to \$126 million in 2003, primarily due to the higher gross margin. Net pension and postretirement benefit costs reduced net income by \$5 million in 2003 and \$2 million in 2002.

Oncor

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Oncor's operating revenues increased \$54 million, or 3%, to \$1.6 billion in 2003. Higher tariffs provided \$32 million of this increase, reflecting transmission rate increases approved in 2003 (\$24 million) and a distribution rate increase associated with the issuance of transition (securitization) bonds in August 2003 (\$8 million). (See discussion under "Regulation and Rates.") The revenue growth also reflected \$21 million in increased disconnect/reconnect fees due primarily to the new POLR rules in 2003.

Gross Margin

	Nine Months Ended September 30,			
	2003	% of Revenue	2002	% of Revenue
Operating revenues	\$ 1,605	100%	\$ 1,551	100%
Costs and expenses:				
Operating costs.....	524	33%	493	32%
Depreciation and amortization related to transmission and distribution assets	206	13%	189	12%
Gross margin.....	<u>\$ 875</u>	<u>54%</u>	<u>\$ 869</u>	<u>56%</u>

The depreciation and amortization expense included in gross margin excludes \$9 million and \$8 million of such expense for the nine months ended September 30, 2003 and 2002, respectively, that is not directly related to delivery property, plant and equipment.

Gross margin increased \$6 million, or 1%, to \$875 million in 2003, driven by higher revenue of \$54 million, partially offset by higher operating costs of \$31 million and depreciation and amortization of \$17 million. The increase in operating costs of \$31 million, or 6%, to \$524 million reflects \$24 million in higher transmission costs paid to other utilities and \$7 million in higher pension and other postretirement benefit costs. The increase in depreciation and amortization of \$17 million, or 9%, to \$206 million reflects \$9 million in higher depreciation due to investments in delivery facilities to support growth and normal replacements of equipment and \$8 million in amortization of regulatory assets commencing with the issuance of transition (securitization) bonds in August 2003. The effect on revenues of the higher distribution rates associated with the issuance of the securitization bonds is offset by the amortization expense.

SG&A expenses decreased \$16 million, or 10%, to \$144 million due primarily to \$19 million lower outside services and consulting expenses arising from cost saving initiatives implemented in late 2002, partially offset by \$2 million higher pension and other postretirement benefit costs.

Franchise and revenue-based taxes declined \$12 million, or 6%, to \$183 million in 2003 due primarily to lower revenues on which gross receipts taxes are based.

Interest income increased \$9 million in 2003 reflecting a \$19 million increase in the reimbursement from the TXU Energy segment for higher carrying costs on regulatory assets (see discussion of higher average interest rates below), partially offset by \$12 million less interest on the excess mitigation credit note receivable due to principal payments (see discussion under "Regulation and Rates").

Interest expense and related charges increased by \$37 million, or 19%, to \$230 million in 2003. Of the change, \$36 million was due to higher average interest rates on borrowings and \$12 million was due to higher average borrowings, partially offset by \$12 million less interest credited to REPs related to the excess mitigation credit. The change in average interest rates reflected the refinancing of affiliate borrowings with higher rate long-term debt issuances.

The effective income tax rate decreased a half of a point to 33.2% in 2003 from 33.7% in 2002, due to a lower state income tax provision.

Net income increased \$7 million, or 3%, to \$239 million in 2003, reflecting higher gross margin and lower SG&A and gross receipts tax expenses, partially offset by higher net interest expense. Net pension and postretirement benefit costs reduced net income by \$14 million in 2003 and \$8 million in 2002.

COMPREHENSIVE INCOME

The after-tax effects of cash flow hedges reported in other comprehensive income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net change in fair value of hedges - gains/(losses):				
Commodities	\$ (20)	\$ (5)	\$ (118)	\$ (63)
Financing - interest rate swaps.....	—	(55)	—	(108)
	(20)	(60)	(118)	(171)
Losses realized in earnings:				
Commodities	43	12	112	9
Financing - interest rate swaps.....	2	1	5	1
	45	13	117	10
Net effect	\$ 25	\$ (47)	\$ (1)	\$ (161)

Gains and losses on cash flow hedges are realized in earnings as the underlying hedged transactions are settled.

FINANCIAL CONDITION

Liquidity and Capital Resources

For information concerning liquidity and capital resources, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2002 Form 10-K. No significant changes or events that might affect the financial condition of US Holdings have occurred subsequent to year-end other than as disclosed herein.

Cash Flows — Cash flows provided by operating activities for the first nine months of 2003 were \$1.3 billion compared to \$968 million for 2002. The increase in cash flows provided by operating activities in 2003 of \$351 million, or 36%, reflected favorable working capital changes (accounts receivable, accounts payable and inventories) of \$801 million, including \$79 million in increased funding under the account receivable sales program, partially offset by lower cash earnings of \$285 million (net income adjusted for the significant noncash items identified in the statement of cash flows) and payments of \$102 million related to counterparty default events and the termination and liquidation of those outstanding positions. The net working capital improvement reflected the effect of billing and collection delays in 2002 associated with the transition to competition.

Cash flows used in financing activities in 2003 were \$1.7 billion compared to \$677 million in 2002. Net cash used in issuances and retirements of borrowings totaled \$897 million in 2003 compared to net cash provided of \$7 million in 2002. US Holdings repurchased \$91 million of preferred stock in 2003. Dividends paid to TXU Corp. and common stock repurchased from TXU Corp. totaled \$713 million in 2003 and \$677 million in 2002.

Cash flows used in investing activities were \$518 million in 2003 compared to \$301 million in 2002. Capital expenditures declined to \$480 million in 2003 from \$591 million in 2002, driven by lower developmental spending by TXU Energy. Purchases of nuclear fuel were \$45 million in 2003 compared to \$51 million in 2002. Proceeds from the sale of certain retail commercial and industrial gas operations provided \$19 million in 2003, compared to \$443 million from sales in 2002 including two generation plants in Texas.

Depreciation and amortization expense reported in the statement of cash flows exceeds the amount reported in the statement of income by \$54 million. This difference represents amortization of nuclear fuel, which is reported as cost of energy sold in the statement of income consistent with industry practice, and amortization of regulatory assets, which is reported as operating costs in the statement of income.

Financing Activities

Capitalization —The capitalization ratios of US Holdings at September 30, 2003, consisted of 50.5% long-term debt, less amounts due currently (\$7.4 billion), —% preferred stock subject to mandatory redemption (\$7 million), 3.4% exchangeable preferred membership interests of TXU Energy (\$494 million), 0.3% preferred stock not subject to mandatory redemption (\$38 million) and 45.8% common stock equity (\$6.7 billion).

US Holdings' cash distributions may take the legal form of common stock share repurchases or the payment of dividends on outstanding shares of its common stock. The form of the distributions is primarily determined by current and forecasted levels of retained earnings as well as state tax implications. The common stock share repurchases made subsequent to January 1, 2002 are cash distributions to TXU Corp. that for financial reporting purposes have been recorded as a return of capital. Any future cash distributions to TXU Corp. will be reported (i) as a return of capital if made through repurchases or (ii) as a dividend if so declared by the board of directors. Any future common stock share repurchases will reduce the amount of US Holdings' equity, but will not change TXU Corp.'s 100% ownership of US Holdings.

Registered Financing Arrangements —US Holdings and its subsidiaries may issue and sell additional debt and equity securities as needed, including issuances by US Holdings of up to \$25 million of cumulative preferred stock and up to an aggregate of \$924 million of additional cumulative preferred stock, debt securities

and/or preferred securities of subsidiary trusts, all of which are currently registered with the SEC for offering pursuant to Rule 415 under the Securities Act of 1933.

Short-term Borrowings — At September 30, 2003, US Holdings had outstanding short-term borrowings consisting of advances from affiliates of \$291 million. At December 31, 2002, outstanding short-term bank borrowings were \$1.8 billion and advances from affiliates were \$787 million. Weighted average interest rates on short-term borrowings were 2.87% and 2.44% at September 30, 2003 and December 31, 2002, respectively.

Credit Facilities — At September 30, 2003, credit facilities available to TXU Corp. and its US subsidiaries were as follows:

<u>Facility</u>	<u>Expiration Date</u>	<u>Authorized Borrowers</u>	<u>At September 30, 2003</u>			
			<u>Facility Limit</u>	<u>Letters of Credit</u>	<u>Cash Borrowings</u>	<u>Availability</u>
Five-Year Revolving Credit Facility	February 2005	US Holdings	\$ 1,400	\$ 266	\$ —	\$1,134
Revolving Credit Facility	February 2005	TXU Energy, Oncor	450	4	—	446
Three-Year Revolving Credit Facility	May 2005	US Holdings (a)	400	—	—	400
Five-Year Revolving Credit Facility	August 2008	TXU Corp.	500	—	—	500
Total			<u>\$ 2,750</u>	<u>\$ 270</u>	<u>\$ —</u>	<u>\$2,480</u>

(a) previously TXU Corp.

In August 2003, TXU Corp. entered into the \$500 million 5-year revolving credit facility that provides for up to \$500 million in letters of credit or up to \$250 million of loans (\$500 million in the aggregate).

In April 2003, the \$450 million revolving credit facility was established for TXU Energy and Oncor. This facility will be used for working capital and other general corporate purposes, including letters of credit, and replaced a \$1 billion 364-day revolving credit facility that expired in April 2003. Up to \$450 million of letters of credit may be issued under the facility.

Since December 31, 2002, TXU Corp. elected to cancel \$250 million in other US credit facility capacity in response to changing liquidity needs.

The US Holdings, TXU Energy and Oncor facilities provide back-up for any future issuance of commercial paper by TXU Energy and Oncor. At September 30, 2003, there was no such outstanding commercial paper.

The \$1.4 billion facility provides for up to \$1.0 billion in letters of credit.

In addition to providing back-up of commercial paper issuances by TXU Energy and Oncor, the credit facilities above are for general corporate and working capital purposes, including providing collateral support for TXU Energy portfolio management activities.

Long-term Debt — During the nine months ended September 30, 2003, Oncor and TXU Energy issued, redeemed, reacquired or made scheduled principal payments on long-term debt as follows:

	<u>Issuances</u>	<u>Retirements</u>
Oncor:		
First mortgage bonds	\$ —	\$ 662
Medium term notes	—	15
Transition bonds	500	—
TXU Energy:		
Fixed rate senior notes.....	1,250	72
Pollution control revenue bonds.....	148	148
Other long-term debt	2	—
US Holdings:		
Other long-term debt.....	—	2
	<u>\$1,900</u>	<u>\$ 899</u>

See Notes 3, 4 and 5 to Financial Statements for further detail of debt issuance and retirements, financing arrangements, and capitalization.

Sale of Receivables —TXU Corp. has established an accounts receivable securitization program. The activity under this program is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, US subsidiaries of TXU Corp., including TXU Energy, Oncor and TXU Gas (originators), sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy remote direct subsidiary of TXU Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions. In September 2003, the maximum amount of undivided interests that could be sold by TXU Receivables Company was increased by \$100 million to \$700 million. In November 2003, this amount decreased to \$600 million.

All new trade receivables under the program generated by the originators are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, are generally due to seasonal variations in the level of accounts receivable and changes in collection trends. TXU Receivables Company has issued subordinated notes payable to the originators for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid that was funded by the sale of the undivided interests.

The discount from face amount on the purchase of receivables funds a servicing fee paid by TXU Receivables Company to TXU Business Services Company, a direct subsidiary of TXU Corp., as well as program fees paid by TXU Receivables Company to the financial institutions. The servicing fee compensates TXU Business Services Company for its services as collection agent, including maintaining the detailed accounts receivable collection records. TXU Business Services Company charges the affiliated businesses for its servicing costs, net of the servicing fee income. The program fees paid to financial institutions, which consist primarily of interest costs on the underlying financing, were \$8 million and \$10 million for the nine-month periods ending September 30, 2003 and 2002, respectively, and approximated 2.4% of the average funding under the program on an annualized basis in each period; these fee amounts represent the net incremental costs of the program to US Holdings and are reported in SG&A expenses.

The September 30, 2003 balance sheet reflects funding under the program of \$667 million, through sale of undivided interests in receivables by TXU Receivables Company, related to \$1.4 billion face amount of US Holdings trade accounts receivable. Funding under the program increased \$220 million for the nine month period ended September 30, 2003, primarily due to the program capacity increase of \$100 million and the effect of improved collection trends. Funding under the program for the nine month period ended September 30, 2002 increased \$141 million. Funding increases or decreases under the program are reflected as cash provided by or used in operating activities in the statement of cash flows.

Upon termination of the program, cash flows to US Holdings would be delayed as collections of sold receivables would be used by TXU Receivables Company to repurchase the undivided interests sold instead of purchasing new receivables. The level of cash flows would normalize in approximately 16 to 31 days. The trade accounts receivable balances on US Holdings' balance sheets represent the face amount of its receivables less the funding under the program and allowances for uncollectible accounts.

In June 2003, the program was amended to provide temporarily higher delinquency and default compliance ratios and temporary relief from the loss reserve formula, which allowed for increased funding under the program. The June amendment reflected the billing and collection delays previously experienced as a result of new systems and processes in TXU Energy and ERCOT for clearing customers' switching and billing data upon the transition to competition. In August 2003, the program was amended to extend the term to July 2004, as well as to extend the period providing temporarily higher delinquency and default compliance ratios through December 31, 2003.

Contingencies Related to Sale of Receivables Program — Although TXU Receivables Company expects to be able to pay its subordinated notes from the collections of purchased receivables, these notes are subordinated to the undivided interests of the financial institutions in those receivables, and collections might not be sufficient to pay the subordinated notes. The program may be terminated if either of the following events occurs:

- 1) all of the originators cease to maintain their required fixed charge coverage ratio and debt to capital (leverage) ratio;
- 2) the delinquency ratio (delinquent for 31 days) for the sold receivables, the default ratio (delinquent for 91 days or deemed uncollectible), the dilution ratio (reductions for discounts, disputes and other allowances) or the days collection outstanding ratio exceed stated thresholds and the financial institutions do not waive such event of termination. The thresholds apply to the entire portfolio of sold receivables, not separately to the receivables of each originator.

The delinquency and dilution ratios exceeded the relevant thresholds during the first four months of 2003, but waivers were granted. These ratios were affected by issues related to the transition to deregulation. Certain billing and collection delays arose due to implementation of new systems and processes within TXU Energy and ERCOT for clearing customers' switching and billing data. The billing delays have been resolved but, while improving, the lagging collection issues continue to impact the ratios. The implementation of new POLR rules by the Commission and strengthened credit and collection policies and practices have brought the ratios into consistent compliance with the program.

Under terms of the receivables sale program, all the originators are required to maintain specified fixed charge coverage and leverage ratios (or supply a parent guarantor that meets the ratio requirements). The failure by an originator or its parent guarantor, if any, to maintain the specified financial ratios would prevent that originator from selling its accounts receivable under the program. If all the originators and the parent guarantor, if any, fail to maintain the specified financial ratios so that there are no eligible originators, the facility would terminate. Prior to the August 2003 amendment extending the program, originator eligibility was predicated on the maintenance of an investment grade credit rating.

Credit Ratings of TXU Corp. and its US Subsidiaries — The current credit ratings for TXU Corp., US Holdings and certain of its US subsidiaries are presented below:

	<u>TXU Corp.</u> (Senior Unsecured)	<u>US Holdings</u> (Senior Unsecured)	<u>Oncor</u> (Secured)	<u>TXU Energy</u> (Senior Unsecured)
S&P.....	BBB-	BBB-	BBB	BBB
Moody's	Ba1	Baa3	Baa1	Baa2
Fitch	BBB-	BBB-	BBB+	BBB

Moody's currently maintains a negative outlook for TXU Corp. and a stable outlook for US Holdings, TXU Energy and Oncor. Fitch currently maintains a stable outlook for each such entity. S&P currently maintains a negative outlook for each such entity.

These ratings are investment grade, except for Moody's rating of TXU Corp.'s senior unsecured debt, which is one notch below investment grade.

A rating reflects only the view of a rating agency, and is not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Financial Covenants, Credit Rating Provisions and Cross Default Provisions —The terms of certain financing arrangements of US Holdings contain financial covenants that require maintenance of specified fixed charge coverage ratios, shareholders' equity to total capitalization ratios and leverage ratios and/or contain minimum net worth covenants. TXU Energy's preferred membership interests (formerly subordinated notes) also limit its incurrence of additional indebtedness unless a leverage ratio and interest coverage test are met on a pro forma basis. As of September 30, 2003, US Holdings and its subsidiaries were in compliance with all such applicable covenants.

Certain financing and other arrangements of US Holdings contain provisions that are specifically affected by changes in credit ratings and also include cross default provisions. The material cross default provisions are described below.

Other agreements of US Holdings, including some of the credit facilities discussed above, contain terms pursuant to which the interest rates charged under the agreements may be adjusted depending on the credit ratings of US Holdings or its subsidiaries.

Credit Rating Provisions

TXU Energy has provided a guarantee of the obligations under TXU Corp.'s lease (approximately \$130 million at September 30, 2003) for its headquarters building. In the event of a downgrade of TXU Energy's credit rating to below investment grade, a letter of credit would need to be provided within 30 days of any such ratings decline.

TXU Energy has entered into certain commodity contracts and lease arrangements that in some instances give the other party the right, but not the obligation, to request TXU Energy to post collateral in the event that its credit rating falls below investment grade.

Based on its current commodity contract positions, if TXU Energy were downgraded below investment grade by any specified rating agency, counterparties would have the option to request TXU Energy to post additional collateral of approximately \$112 million.

In addition, TXU Energy has a number of other contractual arrangements where the counterparties would have the right to request TXU Energy to post collateral if its credit rating was downgraded below investment grade by all three rating agencies. The amount TXU Energy would post under these transactions depends in part on the value of the contracts at that time. As of September 30, 2003, based on current market conditions, the maximum TXU Energy would post for these transactions is \$230 million.

TXU Energy is also the obligor on leases aggregating \$163 million. Under the terms of those leases, if TXU Energy's credit rating was downgraded to below investment grade by any specified rating agency, TXU Energy could be required to sell the assets, assign the leases to a new obligor that is investment grade, post a letter of credit or defease the leases.

ERCOT also has rules in place to assure adequate credit worthiness for parties that schedule power on the ERCOT System. Under those rules, if TXU Energy's credit rating was downgraded to below investment grade by any specified rating agency, TXU Energy could be required to post collateral of approximately \$24 million.

Cross Default Provisions

Certain financing arrangements of US Holdings contain provisions that would result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. Such provisions are referred to as "cross default" provisions.

A default by US Holdings or any subsidiary thereof on financing arrangements of \$50 million or more would result in a cross default under the \$1.4 billion US Holdings five-year revolving credit facility, the \$400 million US Holdings credit facility, the \$68 million US Holdings letter of credit reimbursement (which is no longer outstanding as of October 1, 2003) and credit facility agreement and \$30 million of TXU Mining senior notes (which have a \$1 million threshold).

A default by TXU Energy or Oncor or any subsidiary thereof in respect of indebtedness in a principal amount in excess of \$50 million would result in a cross default for such party under the TXU Energy/Oncor \$450 million revolving credit facility. Under this credit facility, a default by TXU Energy or any subsidiary thereof would cause the maturity of outstanding balances under such facility to be accelerated as to TXU Energy, but not as to Oncor. Also, under this credit facility, a default by Oncor or any subsidiary thereof would cause the maturity of outstanding balances to be accelerated under such facility as to Oncor, but not as to TXU Energy.

A default by TXU Corp. on indebtedness of \$50 million or more would result in a cross default under the new \$500 million five-year revolving credit facility.

A default or similar event under the terms of the TXU Energy preferred membership interests (formerly subordinated notes) that results in the acceleration (or other mandatory repayment prior to the mandatory redemption date) of such security or the failure to pay such security at the mandatory redemption date would result in a default under TXU Energy's \$1.25 billion senior unsecured notes.

TXU Energy has entered into certain mining and equipment leasing arrangements aggregating \$122 million that would terminate upon the default of any other obligations of TXU Energy owed to the lessor. In the event of a default by TXU Mining, a subsidiary of TXU Energy, on indebtedness in excess of \$1 million, a cross default would result under the \$31 million TXU Mining leveraged lease and the lease would terminate.

The accounts receivable program also contains a cross default provision with a threshold of \$50 million applicable to each of the originators under the program. TXU Receivables Company and TXU Business Services Company each have a cross default threshold of \$50,000. If either an originator, TXU Business Services Company or TXU Receivables Company defaults on indebtedness of the applicable threshold, the facility could terminate.

TXU Energy enters into energy-related contracts, the master forms of which contain provisions whereby an event of default would occur if TXU Energy were to default under an obligation in respect of borrowings in excess of thresholds stated in the contracts, which thresholds vary.

US Holdings and its subsidiaries have other arrangements, including interest rate swap agreements and leases with cross default provisions, the triggering of which would not result in a significant effect on liquidity.

OFF BALANCE SHEET ARRANGEMENTS

See discussion above under *Sale of Receivables*.

COMMITMENTS AND CONTINGENCIES