

ON TRACK 2003 annual report



COMPANY description

Xcel Energy Inc. is a major U.S. electric and natural gas company, with annual revenues of \$8 billion. Based in Minneapolis, Minn., Xcel Energy operates in 11 Western and Midwestern states.* The company provides a comprehensive portfolio of energy-related products and services to 3.3 million electricity customers and 1.8 million natural gas customers. In terms of customers, Xcel Energy is the fourth-largest combination electric and natural gas company in the nation.

* When the sale of *Cheyenne Light, Fuel & Power* is final, Xcel Energy will operate in 10 states.

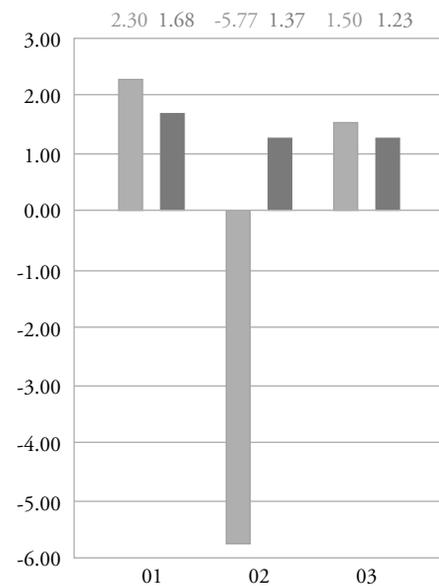
FINANCIAL highlights

	2003	2002
Earnings per common share – diluted	\$ 1.50	\$ (5.77)
Discontinued operations	\$ 0.27	\$ (7.14)
Earnings per common share – diluted before discontinued operations	\$ 1.23	\$ 1.37
Dividends annualized	\$ 0.75	\$ 0.75
Stock price (close)	\$ 16.98	\$ 11.00
Assets (millions)	\$20,205	\$29,436
Book value per common share	\$ 12.95	\$ 11.70

Some of the sections in this annual report, including the letter to shareholders on page 3, contain forward-looking statements. For a discussion of factors that could affect operating results, please see the Management's Discussion and Analysis on page 18.

XCEL ENERGY earnings per share

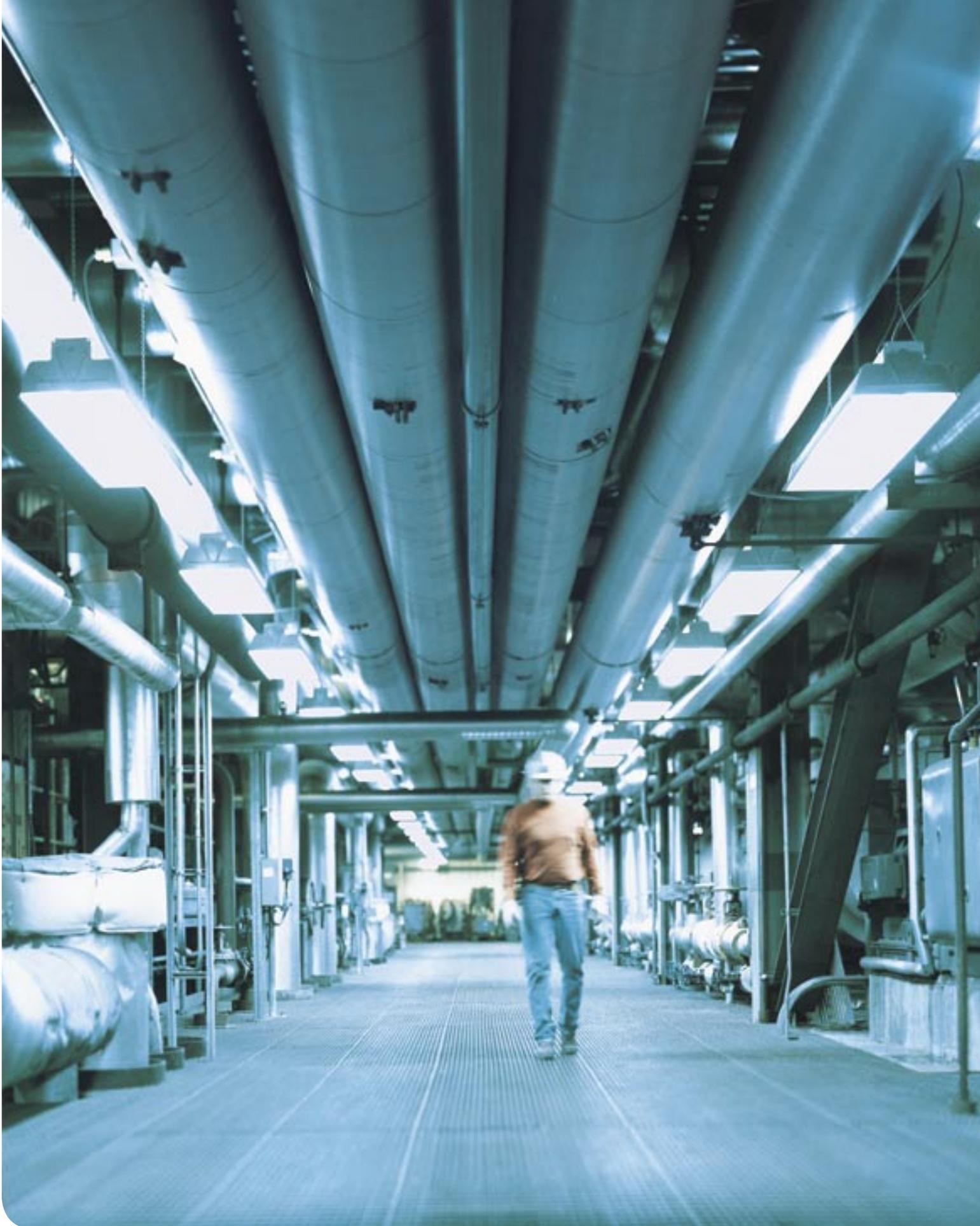
dollars per share (diluted)



■ total earnings per share
■ earnings per share from continuing operations

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ABOVE: Employee Jerry Marquette at Xcel Energy's Sherco coal-fired plant in Minnesota



ABOVE: Chairman and CEO Wayne H. Brunetti at the Colorado Green wind farm near Lamar, Colo.

DEAR shareholders

Xcel Energy is back on track. Although 2003 was a challenging year, we stayed focused on our priorities. We achieved major milestones and established a strategy for the future that significantly strengthens our core businesses and enhances our long-term ability to provide shareholders with an attractive total return.

It's an exciting strategy we call *Building the Core*, and it promises to limit our dependence on outside markets, reduce energy price volatility and increase our ability to grow earnings.

A YEAR IN REVIEW

Before we look ahead, however, let's review 2003 accomplishments, starting with financial results.

In 2003, Xcel Energy met its earnings expectations. Income from continuing operations was \$510 million, or \$1.23 per share. In 2002, income from continuing operations was \$528 million, or \$1.37 per share. The difference was due primarily to higher operating and maintenance costs in 2003, less favorable weather and the dilutive effect of more shares outstanding.

Total earnings for 2003 were \$622 million, or \$1.50 per share. Those results reflect the divestiture and closure of several businesses, which are treated as discontinued operations. In 2002, total earnings were a net loss of \$2.2 billion, or \$5.77 per share, reflecting losses incurred from NRG Energy.

In addition to meeting our earnings target, we refinanced \$1.7 billion of debt at lower interest rates in 2003, saving \$20 million a year in interest.

We also delivered on our promise to cut our ties to NRG Energy. NRG emerged from bankruptcy in December, and we no longer have an ownership stake in the company. In a settlement agreement with NRG's creditors, we agreed to pay \$752 million and, in return, received releases of all potential claims against the company. We will receive approximately \$1.1 billion in tax credits related to the NRG bankruptcy and disposition.

CORPORATE GOVERNANCE

Another strong focus in 2003 was on the important issue of corporate governance, which became a national topic of discussion when Congress passed the 2002 Sarbanes-Oxley Act and the New York Stock Exchange (NYSE) issued new rules. Long before corporate governance was front-page news, Xcel Energy had strict corporate governance rules in place and had achieved most of the actions that are now required. In 2003, Xcel Energy's board of directors and its committees reviewed and revised their existing charters to ensure full compliance with the new requirements.

Our board, for example, already meets the NYSE director independence standards. With the exception of me, all directors in 2003 were from outside the company and met the board's criteria for independence. The audit; governance, compensation and nominating; finance; and operations and nuclear committees are composed entirely of independent directors. The board has conducted an annual self-assessment for years.

At every board meeting, executive sessions are chaired by a presiding independent director, a responsibility that is rotated among committee chairs. The presiding independent director works with me in developing the agenda for each board meeting. The board has guidelines that define term limits, stock ownership, performance and other standards.

Executive compensation is another matter of corporate governance. The board's governance, compensation and nominating committee administers Xcel Energy's compensation policies and programs, including executive compensation. According to the committee's charter, executive compensation – including my own – is based on the ability to meet corporate goals and objectives.

Xcel Energy's board members are actively engaged in every major decision we make. Each year, they participate in strategic planning and meet regularly to make important decisions. They ask tough questions, think independently and hold management accountable for performance. Just as important, they bring a wide variety of expertise to the table, including extensive knowledge of public policy, legal, financial and customer service issues. And they are strongly committed to our shareholders.

We also have a code of conduct in place for Xcel Energy employees and directors. All employees are required to complete code of conduct training, which emphasizes that they are responsible for ensuring honest and ethical behavior. Employees understand that they must report any suspected illegal or unethical business practices to corporate management, corporate security or a compliance hotline that protects their identity. Xcel Energy's code of conduct and other governance materials are published on our Web site.

AGGRESSIVE COMMITMENT TO THE ENVIRONMENT

Xcel Energy is equally and aggressively committed to environmental protection. Few – if any – utilities are as proactive in this area. We use environmental compliance as a starting point and then voluntarily go above and beyond.

Xcel Energy has the largest voluntary emission-reduction program in the nation, which will help us achieve our recently established goal to reduce emissions of carbon dioxide (CO₂), a greenhouse gas. By 2012, Xcel Energy will reduce CO₂ intensity, which refers to pounds of CO₂ emitted per megawatt-hour, from our energy supply portfolio by 7 percent from 2003 levels. From 2003 to 2009, the company will reduce total CO₂ emissions by a cumulative total of 12 million tons.

Our efforts already are making a major impact. The emission-reduction program in Denver completed its first full year of operation in 2003. That program is reducing sulfur dioxide (SO₂) emissions by about 22,500 tons annually and nitrogen oxide (NO_x) by 2,500 tons annually. In Minnesota, regulators approved a similar plan to convert two plants to natural gas and refurbish a third plant with advanced emission-control equipment. Minnesota Gov. Tim Pawlenty praised the project as the biggest air-emissions reduction in Minnesota history.

Looking at the issue another way, Xcel Energy's fossil fuel generation has increased by more than 12 percent since 1997, while the rate of SO₂ emissions decreased by 21 percent and the rate of NO_x emissions decreased by 18 percent.

Xcel Energy is a leading provider of wind energy, with 829 megawatts of wind power capacity on our system at the end of 2003. We also operate the largest voluntary wind energy program in the country. Called Windsource, the program allows customers to support the development of wind power by paying a slightly higher price for electricity.

Xcel Energy is a leader in the use of renewable energy. In addition to wind, our renewable energy portfolio includes hydropower, landfill methane gas and refuse-derived fuel to generate electricity. We also have a long-standing program to help customers conserve energy. Those efforts, together with our initiative in doing more than is required, add up to environmental leadership.

A YEAR OF ACCOMPLISHMENTS

Thanks to the diligent and resourceful work of our employees, 2003 was a year of many accomplishments. One of the most significant was gaining approval from the Minnesota Legislature to construct additional storage for spent nuclear fuel at our Prairie Island plant. The legislation enables the plant's two units to operate through their current licenses, which expire in 2013 and 2014. The decision also allows us to consider life extension for both the Prairie Island and Monticello nuclear plants. Most important, keeping Prairie Island operating will keep customer costs reasonable.

Xcel Energy also achieved a number of operational successes:

- Our Sherco, Tolk and Comanche coal-fired plants set generating records.
- Safety performance improved in many areas, with the company exceeding its overall corporate safety goal.
- The Prairie Island and Monticello nuclear plants maintained the Nuclear Regulatory Commission's (NRC) highest rating for operational excellence and are in a category reserved for facilities that have earned the NRC's highest level of confidence. Prairie Island also set a new operating record, with a consecutive run of 559 days.

BUILDING THE CORE

With operational excellence as a foundation, Xcel Energy is in a strong position to execute its strategy for the future. As I mentioned, we call our strategy *Building the Core*, and it pours all of our strength and resources into our core utility businesses.

We began executing the strategy in 2003 by discontinuing several non-core businesses. In addition to severing our ties to NRG Energy, we sold Black Mountain Gas and Viking Gas Transmission Company. We are exiting our e prime natural gas trading operations and are looking to sell Xcel International, which has operations in Argentina. Early in 2004, we announced the sale of Cheyenne Light, Fuel & Power (CLFP) to Black Hills Corp. CLFP was an integral part of our system for many years, but we didn't have a presence significant enough in the state of Wyoming to justify keeping the company in light of our strategy.

Xcel Energy is entirely focused on its core utility businesses, and we will direct our efforts toward continuously improving them.

Customer service and reliability are good examples. We have significant efforts under way to strengthen customer service with state-of-the-art technology, including a customer billing system and outage management system. We plan to target specific areas to improve the reliability of our system and be a first-quartile performer.

Going forward, Xcel Energy faces significant issues that our *Building the Core* strategy addresses. One of the most pressing is our ability to meet customers' growing demand for electricity. To ensure that our Upper Midwest customers have adequate power on the hottest days, we've proposed investing \$164 million for new natural-gas-fired peaking units in Minnesota and South Dakota. Those units would operate during times of peak demand for electricity.

In Minnesota, our emission-reduction effort will add at least 300 megawatts to our generating portfolio. That project will cost about \$1 billion.

In Colorado, we are proposing to build and operate a 750-megawatt coal-fired generating unit, which would serve as a base-load – or continuous – source of generation. If approved by the Colorado Public Utilities Commission, the unit, which would be located at our Comanche coal-fired facility near Pueblo, would cost about \$1.3 billion and could begin producing electricity by late 2009. Adding a coal-fired unit to our generating portfolio would help us mitigate the effect of high and volatile natural gas prices and help us meet Colorado's growing energy needs.

Building new generation instead of buying power positions us well for the future. It helps us reduce energy price volatility while lessening our dependence on outside markets.

Most significant to shareholders, owning new generation should add to our earnings growth capabilities, which – when combined with our dividend yield – will provide an attractive total return. And that leads us to the topic of dividends.

I understand how important the dividend is to you. The board will evaluate our dividend policy later this year, and our ultimate policy will consider:

- cash generation from utility operations;
- capital investment in our utility businesses;
- providing shareholders with a reasonable return on their investment; and
- the impact on our capital structure and our credit ratings.

In other words, we will balance our dividend policy with the opportunity to invest in the core utility businesses to maximize value for you.

THE IMPACT OF NATIONAL ISSUES

A strong corporate strategy addresses only part of the challenge for Xcel Energy. There are wider issues that greatly affect our company and our industry. Two in particular come to mind. One is the need for a national energy policy and the other is the need for a comprehensive environmental policy.

For more than 10 years, Congress has been crafting a national energy policy. The need is obvious. A national energy policy would provide many benefits, including the

ability to improve the reliability of the nation's transmission system, enhance renewable sources, fund low-income home energy assistance and eliminate outdated regulation such as the Public Utility Holding Company Act.

A comprehensive environmental policy would give us the clarity and flexibility we need to remain an environmental leader. In terms of environmental legislation, we favor the Clear Skies Act, which greatly streamlines hundreds of overlapping environmental rules and regulations, while giving utilities the ability to determine the best way to meet those requirements.

In June, I will become chairman of the Edison Electric Institute, an association for shareholder-owned electric utilities. Our focus will largely be on these two important priorities. I look forward to the assignment because energy and environmental policies greatly affect our industry and Xcel Energy.

With a clear vision for the future, we are eager to move forward with our strategy. Helping me lead that effort will be Dick Kelly, who became president and chief operating officer in 2003. Previously vice president and chief financial officer, Dick was instrumental in guiding Xcel Energy through a long series of financial challenges in connection with the NRG bankruptcy. During that difficult time, he earned the respect of investors, the financial community and regulators. With 36 years in the energy business, Dick brings invaluable experience to his position.

Pending shareholder approval, Dick also will join our board of directors this year, along with Richard H. Anderson, chief executive officer (CEO) of Northwest Airlines, Inc., and Ralph R. Peterson, chairman, president and CEO of CH2M Hill Companies, Ltd., a global project delivery company. Anderson and Peterson will replace retiring board members Rodney E. Slifer, a partner with Slifer, Smith & Frampton, and Allan L. Schuman, chairman and CEO of Ecolab, Inc. We sincerely thank Rod and Al for their years of service, and look forward to working with our new board members, who will bring a wealth of talent and experience to the board.

Thank you for the trust and support you have shown us through a year filled with challenges. We hope you feel as optimistic as we do that Xcel Energy is on track.

Sincerely,

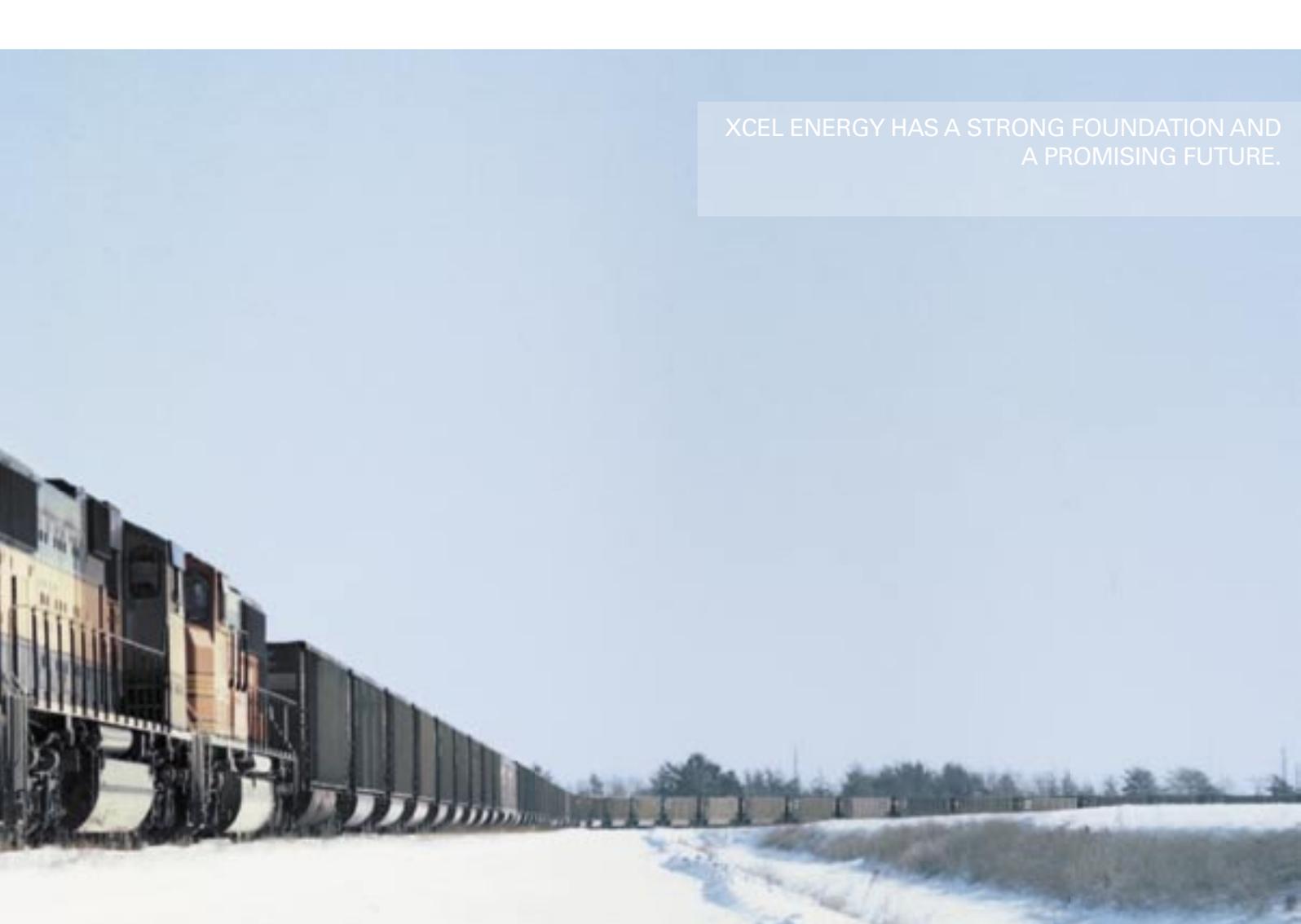


Wayne H. Brunetti
Chairman and CEO



ABOVE: A coal train pulls out of Xcel Energy's Sherco plant.

ON TRACK for the future



XCEL ENERGY HAS A STRONG FOUNDATION AND
A PROMISING FUTURE.

With a clear purpose and strong foundation, Xcel Energy is on track for the future. Our employees are focused on the fundamentals of providing safe, reliable energy. We power the essentials of life, as we say in our corporate vision statement. We're proud of that calling and recognize its importance.

Competitively priced energy produced in an environmentally sound manner is essential to a region's social and economic health. It contributes to quality of life and security. It enables communities to grow and people to flourish.

Xcel Energy is fortunate to operate in a thriving service territory, which is one of the company's fundamental strengths. Even in a weak economy, Xcel Energy's service territory is relatively strong, with an unemployment rate lower than the national average and a growing population.

Because Xcel Energy's operations span a number of states, we benefit from diversity in many forms, including economic, geographic and regulatory. With a diverse

service territory, we can balance our business risks, lessen our exposure to public policy decisions, moderate the effects of weather and be less dependent on a particular customer, regional economy or metropolitan area for our success.

Our energy portfolio is equally diverse. Xcel Energy relies on a balanced portfolio of generating sources, including coal, nuclear, natural gas, oil and renewable sources. That balance ensures reliability and enables us to keep energy prices competitive.

Xcel Energy also has a valuable and diverse asset base that includes power plants, electric transmission and distribution lines and natural gas lines. Most important, our employees operate those assets well. They understand the complexities of the energy business, have years of experience, work hard and are truly committed to customers.



ABOVE: Xcel Energy buys power from the Colorado Green wind farm, which includes 108 wind turbines capable of producing up to 162 megawatts of electricity.

PROTECTING the environment

One of Xcel Energy's greatest strengths is its commitment to environmental protection. We devote considerable resources to maintaining the delicate balance between meeting customers' energy needs and protecting the environment.

While regulatory compliance is the foundation of our effort – and no small task – we voluntarily go above and beyond the requirements to achieve real environmental leadership.

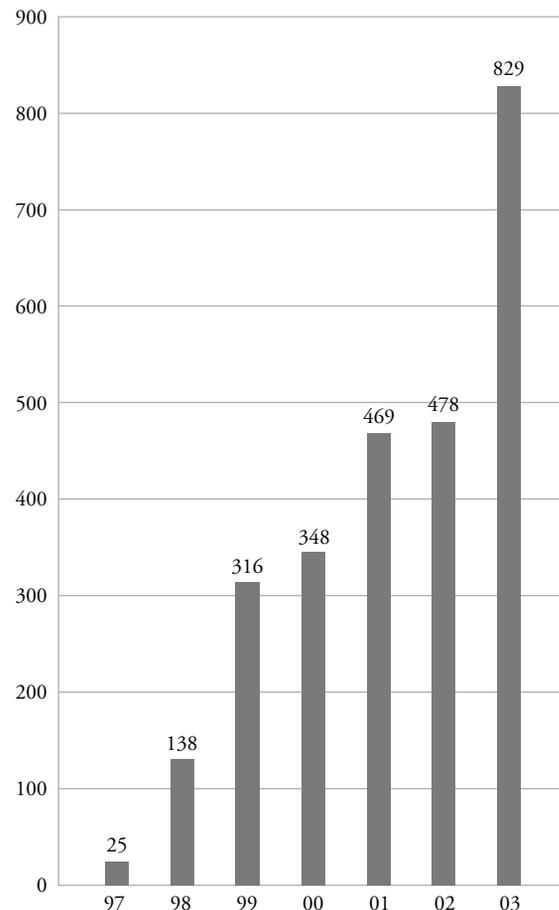
For example, Xcel Energy recently established a goal to reduce emissions of carbon dioxide (CO₂), a greenhouse gas. From 2003 to 2009, the company will reduce CO₂ emissions by a cumulative total of 12 million tons. By 2012, the company will reduce CO₂ intensity, which refers to pounds of CO₂ emitted per megawatt-hour, from our energy supply portfolio by 7 percent from 2003 levels. We will achieve those objectives in part through our voluntary emission-reduction effort, which is the largest in the nation.

While all of the power plants in the program met state and federal air-quality requirements, the company proposed either converting coal-fired plants to natural gas or installing advanced emission-control equipment. In Minnesota, the program will significantly reduce emissions of sulfur dioxide, nitrogen oxide and mercury, while increasing generating capacity. In Colorado, the program achieved its target reductions in its first full year of operation.

In addition to our voluntary emission-reduction program, we will meet our emission-reduction objectives by seeking to increase the amount of renewable energy on our system, adding cleaner coal-fired and natural gas generation, continuing to operate our non-emitting nuclear and hydro facilities and offering our customers energy efficiency options.

Xcel Energy's portfolio of renewable energy sources is another indication of the company's environmental leadership. With 829 megawatts of wind power capacity at the end of 2003, Xcel Energy is a leading provider of wind energy. That power comes from purchase agreements with facilities in Minnesota, Colorado, New Mexico, Wyoming and Texas, and from our own turbines. Our goal is to deliver an additional 154 megawatts of wind energy by the end of 2004.

XCEL ENERGY wind generation
in megawatts



More than 36,000 customers have signed up for our Windsource program, which allows customers to support the development of wind energy by paying a slightly higher energy bill. The program, which is offered to customers in Colorado, New Mexico and Minnesota, is the largest voluntary wind energy program in the country.

To protect precious resources, Xcel Energy was a pioneer in the development of using wastewater for cooling and other purposes at our power plants. We reuse portions of our own plant water, such as water from cooling towers, and we purchase and re-treat municipal wastewater from nearby communities for use at many of our facilities.

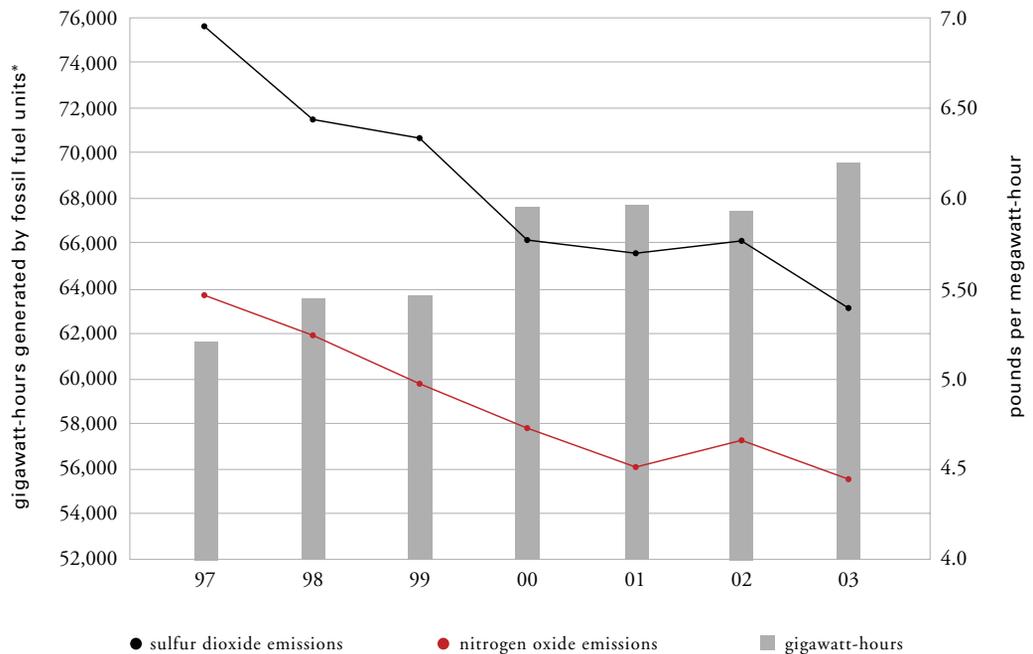
Because Xcel Energy power plant sites provide open space and habitat for a variety of wildlife, the company has initiated many efforts over the years to protect those animals. For example, we attached nesting boxes to the plant stacks of many of our facilities for peregrine falcons, owls and eagles. Some of those nesting boxes include

cameras that enable visitors to the Xcel Energy Web site to watch the birds raise their young. In addition, Xcel Energy was the first electric utility to approach the U.S. Fish and Wildlife Service and sign a memorandum of understanding to explore ways to reduce bird injuries and deaths associated with electrical lines.

Our respect for the communities we serve is a compelling reason to protect the environment. We regard those communities as environmental partners and provide funding for nonprofit community projects such as river cleanups and park improvements. Xcel Energy also invests up to \$25 million annually in a renewable energy development fund, which awards grants to develop renewable energy generators and to conduct research into renewable development technologies.

XCEL ENERGY generation compared with emission reductions

RIGHT: Since 1997, Xcel Energy's fossil fuel generation has increased by more than 12 percent, while the rate of sulfur dioxide emissions decreased by 21 percent and the rate of nitrogen oxide emissions decreased by 18 percent.

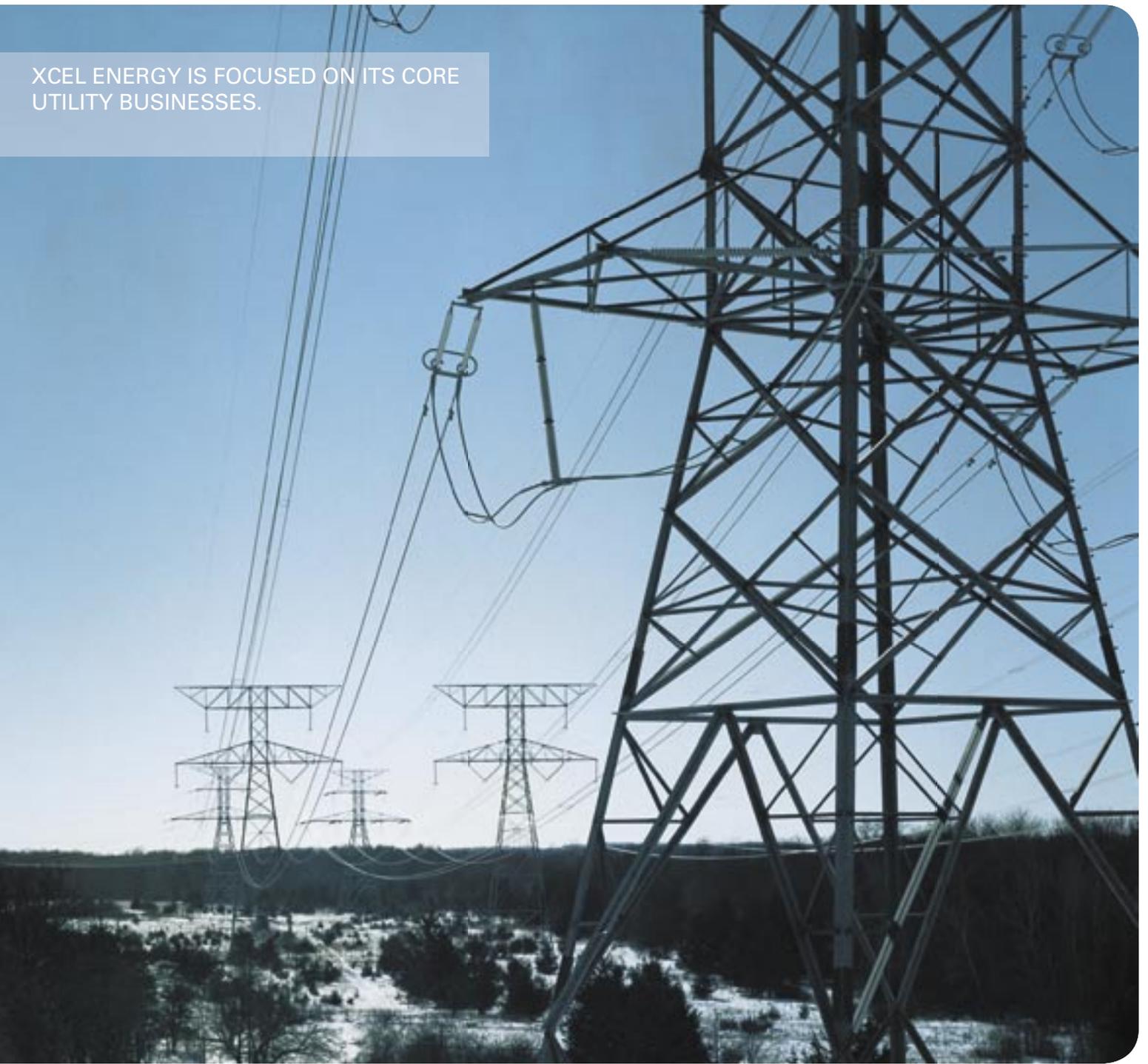


* Fossil generation monitored by the EPA Emission Tracking System.

RIGHT: Peregrine falcons, owls and eagles raise their young in nesting boxes attached to the stacks of many Xcel Energy power plants.



XCEL ENERGY IS FOCUSED ON ITS CORE
UTILITY BUSINESSES.



ABOVE: A reliable transmission system is an important part of Xcel Energy's core utility businesses.

INVESTING in our core businesses

Because we no longer believe that the energy industry will be the deregulated entity we once envisioned, we are focusing our energy on strengthening our core businesses to succeed as an integrated utility. As always, Xcel Energy's challenge is to meet customers' growing energy needs in a cost-effective way. Our most recent forecasts indicate that over the next decade, Xcel Energy will need significant new sources of electric generation not currently owned or under contract to the company.

To help meet that demand, we are seeking authorization for a \$100 million project to add two combustion turbines at our Blue Lake peaking plant and a \$64 million project to add one turbine at our Angus Anson peaking plant. Each of the three turbines would be fired by natural gas and have a summer capacity of about 160 megawatts. Peaking plants are used when the demand for electricity exceeds the capability of lower-cost, base-load plants, which operate around the clock.

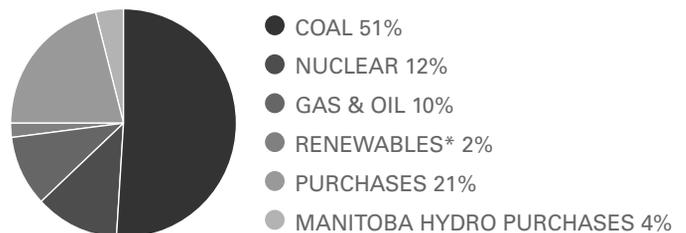
We also see a potential need for new base-load generation, and recently proposed building and operating a 750-megawatt coal-fired generating unit in Colorado at our existing Comanche coal-fired facility. If approved, the unit would cost about \$1.3 billion and could begin producing electricity by late 2009. Among other advantages, building a coal-fired unit will help us moderate the effect of high and volatile natural gas prices and supply much-needed electricity for our Colorado customers.

Finally, our emission-reduction effort in Minnesota will add at least 300 megawatts to our generating portfolio, while improving the environment. That project will cost about \$1 billion and will be complete in 2009.

To keep our existing generation viable, Xcel Energy has initiated a \$132 million capital improvement project to replace steam generators at unit 1 of our Prairie Island nuclear plant. The original steam generators provided more than 30 years of service but now require replacement. Crews will replace the generators during an extended refueling outage this fall.

Delivering electricity is just as important as generating it, and we have a number of major transmission line projects under way. In Southwestern Minnesota, we reached several milestones in a \$160 million project to upgrade the region's transmission system, which will help us deliver power from the growing wind generation industry in the Buffalo Ridge area of the state. By the end of this year, we should complete a \$166 million project to construct a 345-kilovolt line from Amarillo, Texas, to Lamar, Colo. The line, which has been under construction for four years, will provide a strong link between our operations in Texas and Colorado and improve overall reliability. Every Xcel Energy jurisdiction has many smaller transmission projects in the works, also for the purpose of improving reliability.

XCEL ENERGY portfolio of energy sources



* Renewables include wind, hydro and biomass.

WORKING for our customers

Customer care is a top priority at Xcel Energy and has many components. One of the most essential is our work to ensure reliability. Xcel Energy makes significant annual investments in reliability projects and devotes many labor hours to those tasks. In fact, almost every maintenance, construction or replacement activity in every part of the business – from energy supply to energy delivery – is devoted to ensuring reliability.

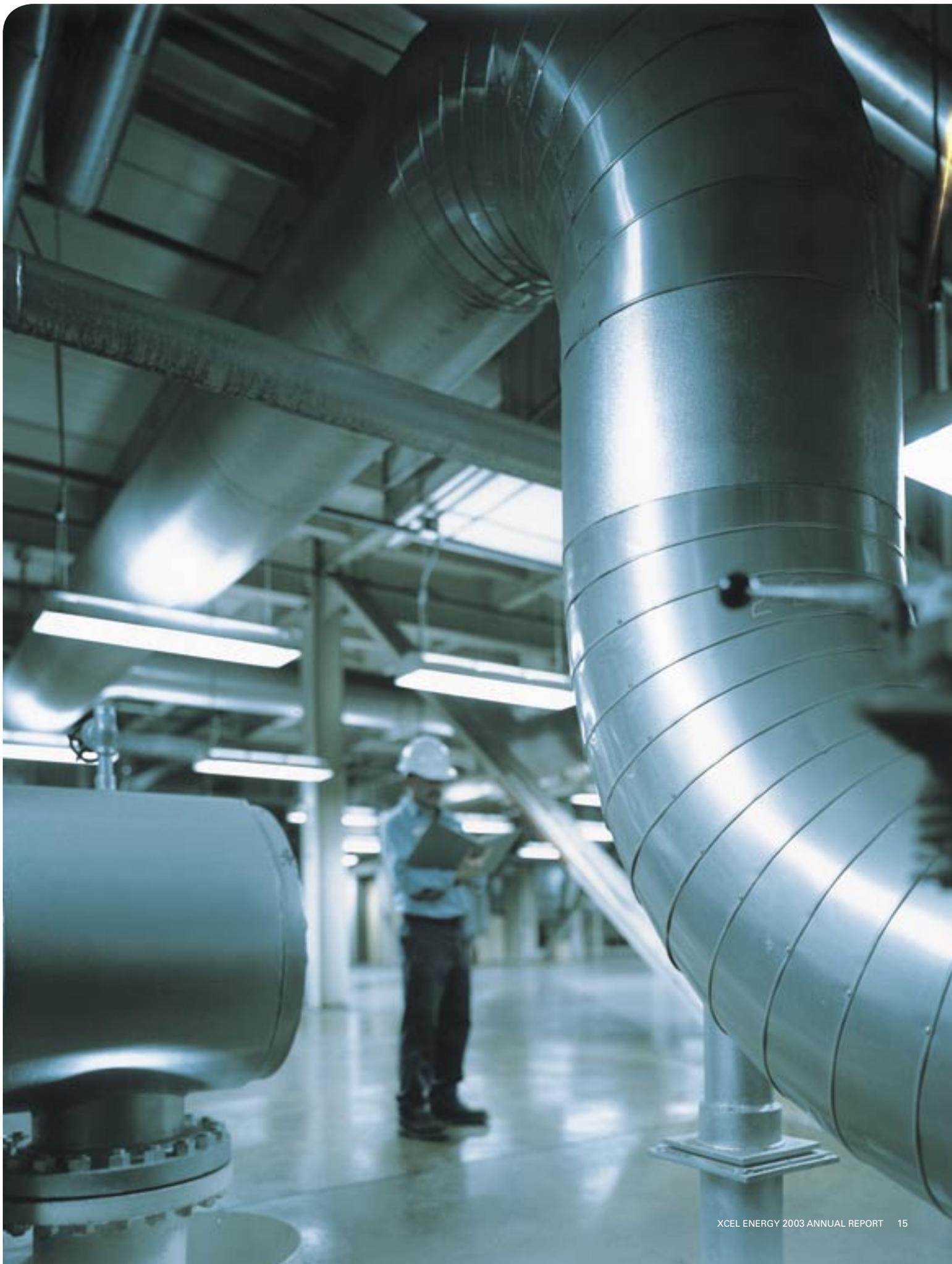
Communicating with customers is another important element of customer care. Those communication efforts include improving the kind of detail we are able to give customers about outages or notifying them about reliability projects we're planning in their neighborhoods. Our goal is to be proactive. We launched an information campaign in the fall of 2003, for example, to let customers know about the probability of higher natural gas prices during the 2003-2004 heating season and the preventative measures they could take to lessen the effects of higher prices.

Xcel Energy carefully tracks customer satisfaction by surveying residential and business customers monthly. We also measure customer interactions such as the courtesy of our call center employees or whether a customer question is resolved on the first call. Our belief is that every contact a customer has with Xcel Energy should be a satisfying one.

The heart of Xcel Energy's customer care effort, however, is our work to help customers conserve energy and manage its use. In 2003, we helped our customers conserve 285 gigawatt-hours of electricity, the equivalent amount of electricity used by 38,000 homes in one year. In Minnesota, customers conserved the equivalent amount of natural gas normally used by 8,900 homes.

Our energy conservation efforts were recognized in 2003 when several of our programs received awards from the American Council for an Energy Efficient Economy. In addition, the Minnesota Housing Finance Agency awarded Xcel Energy its Excellence in Housing Design Award for the company's support of the Jackson Street Village Townhome housing development, affordable housing that includes state-of-the-art energy-efficiency features.

RIGHT: Employee Christopher Peña at Xcel Energy's Comanche coal-fired plant



CARING for our communities

Despite the economic challenges of 2003, Xcel Energy remained committed to the communities in our service territory. We recognize that our success depends on their strength and vitality, and we want them to be good places to work, live and own a business.

Xcel Energy devotes significant money and effort toward community care. One of the strongest areas is corporate giving, with more than \$8 million going to charitable organizations in 2003. The Xcel Energy Foundation targets its grants toward education, building stronger communities, and arts and cultural activities. We also match employee contributions to nonprofit organizations, and donate \$5 for each hour an Xcel Energy employee volunteers for a qualifying organization.

But monetary contributions are only part of the story. Our employees and retirees are energetic volunteers, donating many hours to organizations such as Meals on Wheels and Habitat for Humanity. The company also sponsors community events in every part of the service territory – from holiday parades to state fair junior livestock sales.

On the economic development front, Xcel Energy provides operating funds to a variety of entities, ranging from regional and local economic development organizations to communities engaged in long-term community planning. Our employees are active in local chamber of commerce organizations and participate in other efforts aimed at strengthening their communities.

To ensure that Xcel Energy's network of vendors and contractors reflects the cultural diversity of the service territory, the company supports women- and minority-owned businesses. In 2003, we spent almost \$90 million through our supplier diversity effort.

Looking back, one of the shining moments in our community involvement for 2003 was the Xcel Energy United Way campaign. Our employees and retirees enthusiastically responded with \$1.75 million in pledges. The Foundation will match these pledges, dollar for dollar, for a total of \$3.5 million in critical community support for 115 United Ways across our service territory. More than 500 employee volunteers donated their time and talents to the campaign.

XCEL ENERGY foundation 2003



RIGHT: Xcel Energy's facilities, such as the Wescott gas plant, are good neighbors and important to the communities they serve.

