
Dear Fellow Unitholders and Stockholders: With the completion of the IPO of Crosstex Energy, Inc. (“CEI” or “The Corporation”) in January of 2004, Crosstex is now two public companies supported by the same business. CEI owns approximately 56% of the interests in Crosstex Energy, L.P. (“CELP” or “The Partnership”) through its ownership of the general partner and 5 million limited partner units. The Partnership owns the operating assets of the business, which after our recently announced acquisition of the Louisiana Intrastate Gas (“LIG”) System, consist of 4,500 miles of pipeline, 8 processing plants, and over 60 treating plants.

One Business, Two Ways To Own It

The Partnership and the Corporation are both growth vehicles with different characteristics that are derived from their structure as a partnership and a corporation. The Partnership distributes cash to its partners in a tax efficient manner, in that it pays no taxes, and its taxable gains and losses flow through to its partners on their k-1. The cash distribution from the Partnership increased 50% in 2003, from $.50 per unit in the first quarter of the year, to $.75 per unit in the fourth quarter. Our focus on continued growth is driven by the desire to continue to grow the cash distribution.

The Corporation benefits in two ways from the continued growth of the distribution from the Partnership. In addition to its ownership of the general partner interest and the limited partner units, it also owns the Incentive Distribution Rights from the Partnership, so that as the cash distribution grows, its share of the distributions increases. Unlike the Partnership, the Corporation is a taxpayer, and the dividends it pays to stockholders will also be taxable at the new 15% dividend rate for individuals. It is our expectation that growth in the cash distributions from the Partnership will lead directly to increases in cash dividends from the Corporation.
The Partnership reported net income of $15.2 million in 2003, compared to $2.0 million in 2002. Distributable Cash Flow was $29.5 million, an increase of 150% from the $11.8 million level achieved in 2002, reflecting the growth we achieved during the year. Distributable Cash Flow from the Partnership was sufficient to cover the $2.50 per unit distribution for the year by 1.3 times.

The Corporation reported net income of $13.4 million in 2003, compared to $5.6 million in 2002. Its share of the distributions paid by the Partnership in the fourth quarter was $4.4 million, and for the full year it was $13.9 million. Each $0.05 increase in the quarterly distribution per unit from the partnership will increase the quarterly distribution to the Corporation by approximately $700 thousand.

This growth is the direct result of the vision and dedication of Crosstex’s people and the “ownership mentality” each brings to the job every day. That mentality comes naturally to the people we add to our team and is reinforced in two important ways. First, each employee participates in a bonus plan that has only one measure: Return on Invested Capital. Second, each employee has equity, either directly or in the form of options to acquire equity through our Incentive Plans. Because of this, everyone in the Company is focused not on growth for its own sake, but rather on highly profitable growth that will allow us to continue to increase cash distributions and dividends.
Employees taking Ownership
Excellence

Enthusiasm
We didn’t wait long into the new year before we announced our next major growth step. Having successfully integrated the assets we acquired in 2003, in February 2004 we announced our largest acquisition to date – the Louisiana Intrastate Gas System (LIG). At $76.2 million, we expect the transaction to be immediately accretive to our distributable cash flow.

The LIG System consists of almost 2,000 miles of pipe and 5 processing plants and is the largest intrastate gas transmission system in Louisiana. It currently moves approximately 600,000 mmbtu’s of gas per day, which will increase the amount of gas we handle each day to over 1.5 billion cubic feet, or the equivalent of about 3% of the production in the United States each day.

We plan to continue to be active acquirers. We are studying potential transactions that would be complementary to our existing assets in South Texas, Louisiana, and Mississippi. We are also looking at potential new core areas in West Texas, and leveraging our position in the Seminole plant into additional CO2 business opportunities. Our goal is to continue building a company that is based on solid assets, one that can generate stable and predictable cash flows from a diversified geographic area and market mix.
BUILDING A GREAT COMPANY THAT WILL LAST
In closing, 2003 was another great year for the Crosstex family. In addition to outstanding growth, the passionate pursuit of our people to “build a great company that will last” has transformed our business of moving gas molecules through our pipelines into an extraordinary story of service, resulting in the #1 industry ranking in customer satisfaction. It is this passion that carried us into the new year of 2004 with a spirit of full commitment to continue the Crosstex story of successful growth. I thank all Crosstex employees for not only their hands and great minds, but also for their hearts.

We thank each of our customers, vendors, financial partners, stockholders, unitholders, and other stakeholders for their continued support of Crosstex.

Sincerely,

Barry E. Davis
President and Chief Executive Officer
Crosstex Energy, L.P. Major Asset Locations

(Detailed maps available at www.crosstexenergy.com)

Legend
- Gathering Systems
- Industrial Pipelines
- Gas Processing Plants
- Amine Treating Plants
- Gulf Coast Transmission
- Crosstex LIG
- Vanderbilt System
- CCNG Transmission
- CCNG Transmission-Hallmark 20
- Gregory Gathering System
- Mississippi System
- Alabama System
- Denton Gathering
- Harrison Gathering System
- Arkoma Gathering System
- Conroe Gathering
- Pandale Gathering System
- Aurora Centana

Gulf of Mexico
Executive Management

James R. Wales
Executive Vice President, Southern Division

Barry E. Davis
President & Chief Executive Officer

Jack M. Lafield
Executive Vice President, Corporate Development

Michael P. Scott
Senior Vice President, Technical Services

William W. Davis
Executive Vice President & Chief Financial Officer

A. Chris Aulds
Executive Vice President, Eastern Division

Boards of Directors

Bryan H. Lawrence
Chairman, New York, New York (CEI and CELP)

Frank M. Burke
Dallas, Texas (CEI and CELP)

Barry E. Davis
President & CEO, Dallas, Texas (CEI and CELP)

Sheldon B. Lubar
Milwaukee, Wisconsin (CEI and CELP)

Robert F. Murchison
Dallas, Texas (CEI and CELP)

C. Roland Haden
College Station, Texas (CELP)

Stephen A. Wells
Belton, Texas (CELP)

Unitholder Information

Exchange Listing
Crosstex Energy, L.P. common units are listed on the NASDAQ national market under the symbol XTEX.

Crosstex Energy, Inc. common shares are listed on the NASDAQ national market under the symbol XTXI.

Transfer Agent/Unitholder Records
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Tel 212-956-5100

Auditors
KPMG LLP

Investor Information
Copies of annual reports, press releases and other publications are available without charge from:

Investor Relations
3001 Cedar Springs, Suite 600
Dallas, Texas 75201
Tel 214-955-9300
Fax 214-955-9301

Web Address
www.crosstexenergy.com

Refer to our web site for:
• Company News
• Earnings Call Schedules
• Press Releases
• K-1 Information
• Distribution & Dividend Information

K-1’s were mailed to Unitholders in February 2004.