

# **TXU Quarterly Review**

**July 30, 2002**

# Investor Relations Calendar



- **Lehman Brothers Conference, NYC, Sept. 3-5**
- **Merrill Lynch Conference, NYC, Sept. 18**
- **National NAIC Conference, Sept. 19-21**
- **Analyst Conference, Dallas, Sept. 25**
- **EEl Financial Conference, Palm Desert, CA, Oct. 20-23**
- **Third Quarter Earnings Release, Oct. 30**

# Safe Harbor Statement



*This presentation and other reports made by TXU Corp. contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Although TXU Corp. believes that in making any such statement their expectations are based on reasonable assumptions, any such statement involves uncertainties and is qualified in its entirety by reference to factors contained in the Forward-Looking Statements section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the TXU Corp. 2001 Form 10-K and 2001 10Q's, as well as general industry trends; implementation of the 1999 Texas electric industry restructuring legislation and other legislation; changes in business strategy or development plans; changes in, or failure or inability to comply with, governmental regulations, including, without limitation, environmental regulations; changes in tax laws; among others, that could cause the actual restructuring or other results of TXU Corp. to differ materially from those projected in such forward-looking statements.*

**Mike McNally**  
**Chief Financial Officer**

# Today's Presenters



**Mike McNally**

**Chief Financial Officer**

**Paul Marsh**

**Chief Operating Officer –  
TXU Energy, Europe**

**Brian Dickie**

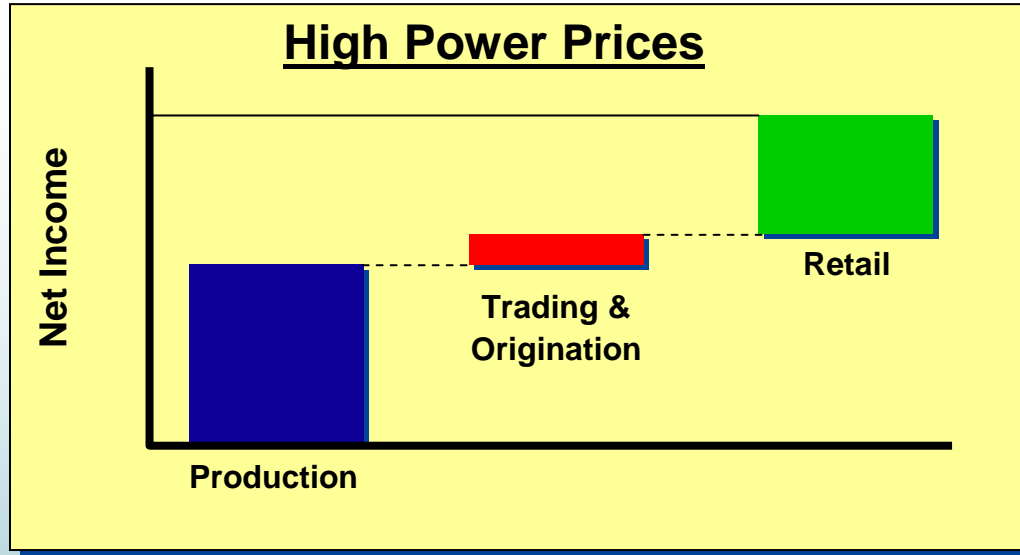
**President –  
TXU Energy, North America**

# Second Quarter Highlights

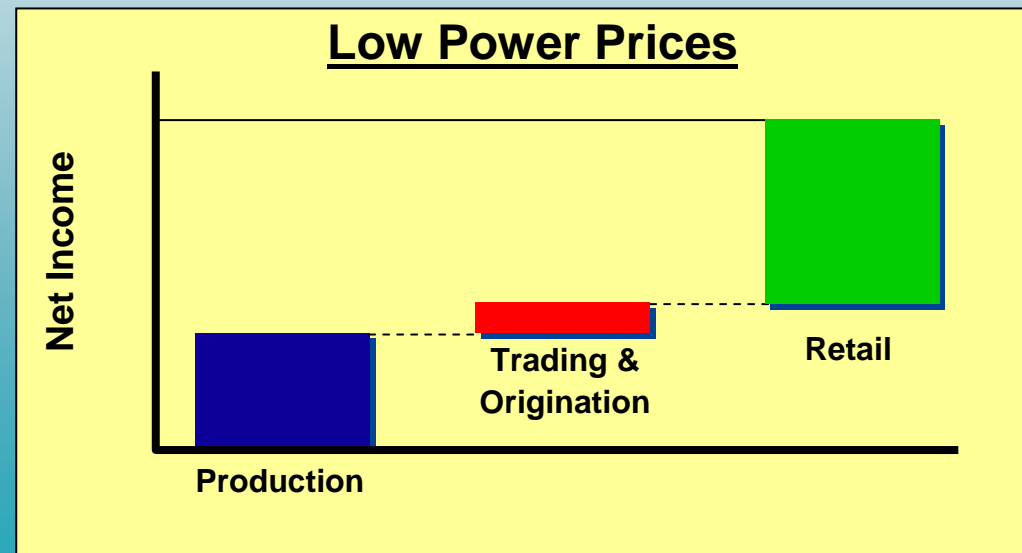


- **Good financial results – EPS \$0.73**
- **Balance sheet further strengthened**
- **Omnibus settlement approved by Texas PUC**
  - **Regulatory asset securitization \$1.3 billion**
- **Successful transition in Texas market**
- **Acquisition of BVAG (Stadtwerke Braunschweig)**
- **Success through diverse operations and sound business model**

# Benefits of TXU's Business Model



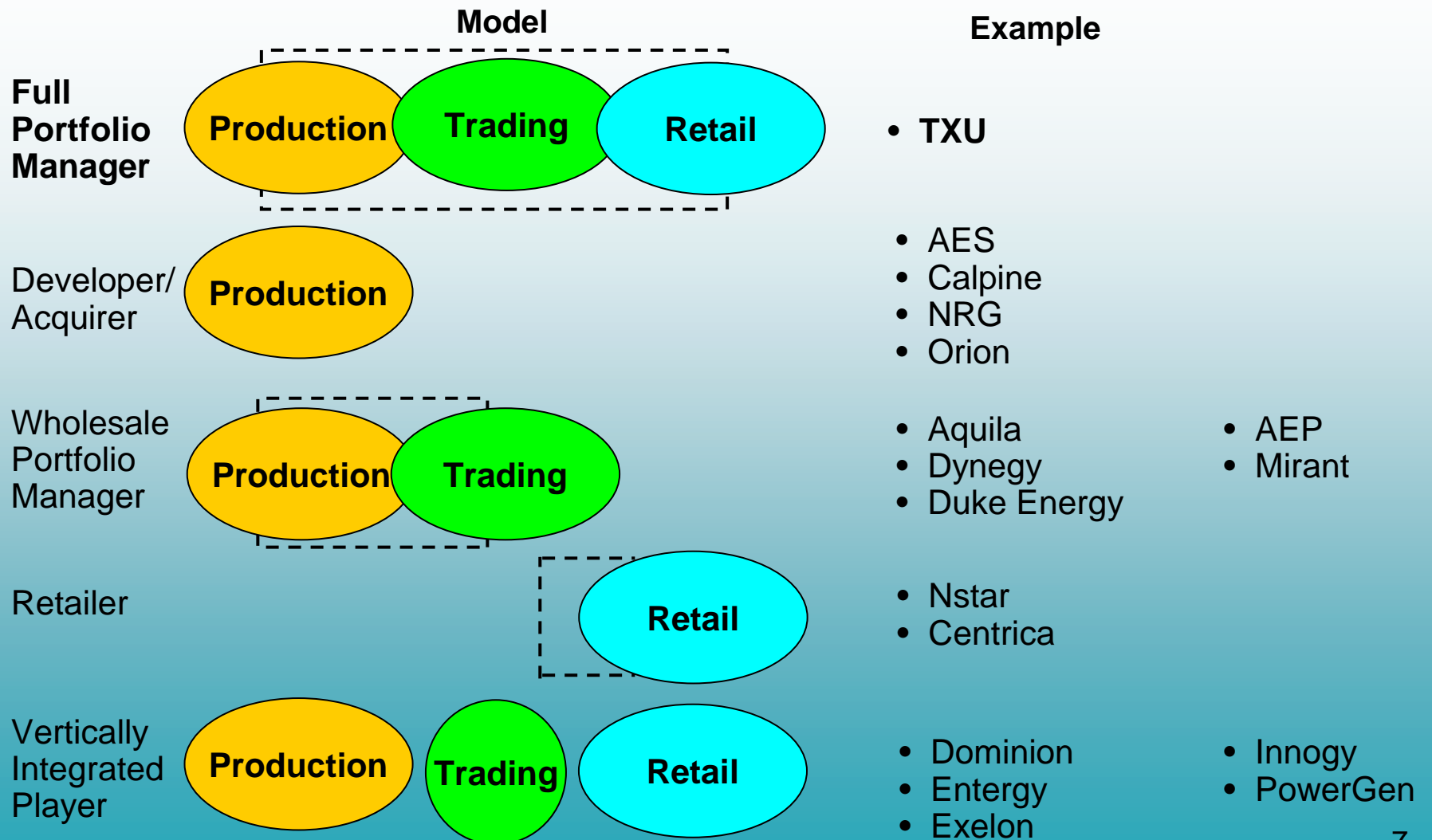
TXU's business model captures value across a range of market conditions.



# Distinctive Business Model



*TXU's Approach is Differentiated from Other Merchant Companies Through its Integration of Production, Trading and Retail Activities*



# Priorities



- **Maintain credit strength**
- **Deliver earnings and cash flow growth**
- **Deliver on UK initiatives**
- **Pursue disciplined growth**
- **Achieve material and sustainable cost reduction**
- **Set the standard for risk management**

# **Paul Marsh**

**Chief Operating Officer -  
TXU Energy, Europe**

# Second Quarter Highlights



- **Difficult UK electricity market**
  - **continued low wholesale power prices, little volatility, strong retail competition**
- **Acquisition of 74.9% Stadtwerke Braunschweig (Germany) and Amerada retail business (UK)**

# Acquisition of 75% of BVAG



- **210,000 customer accounts**
- **Network business with stable cash flows**
- **Cost: €434 million – 7 times EBITDA**
- **Integration with Kiel and Ares firmly on schedule**
- **Total customers in Germany now over 650,000**

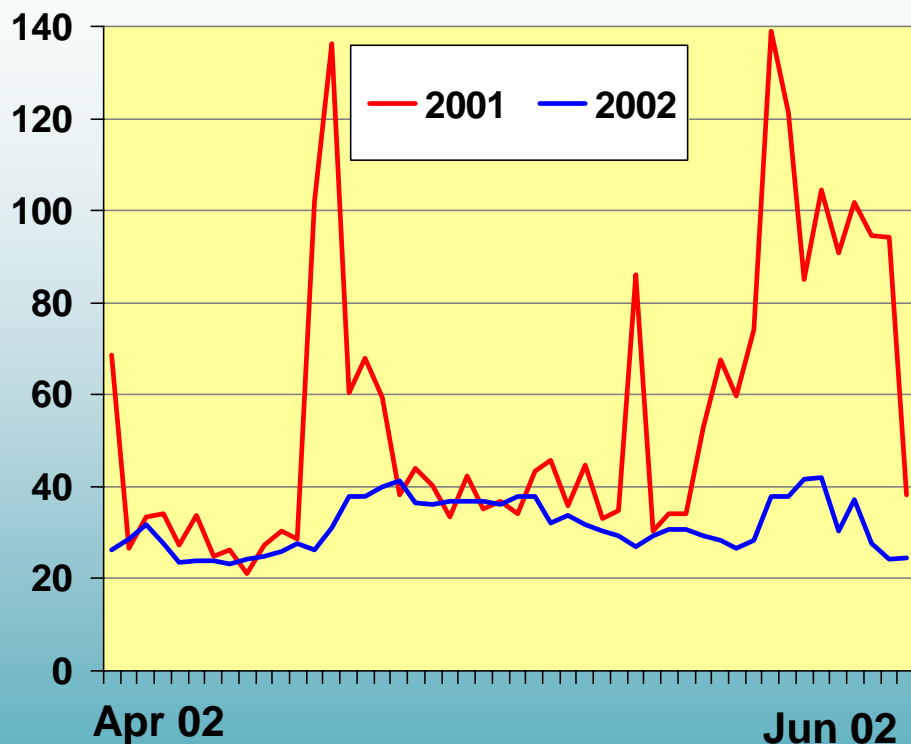
# UK Market

# UK Power Prices



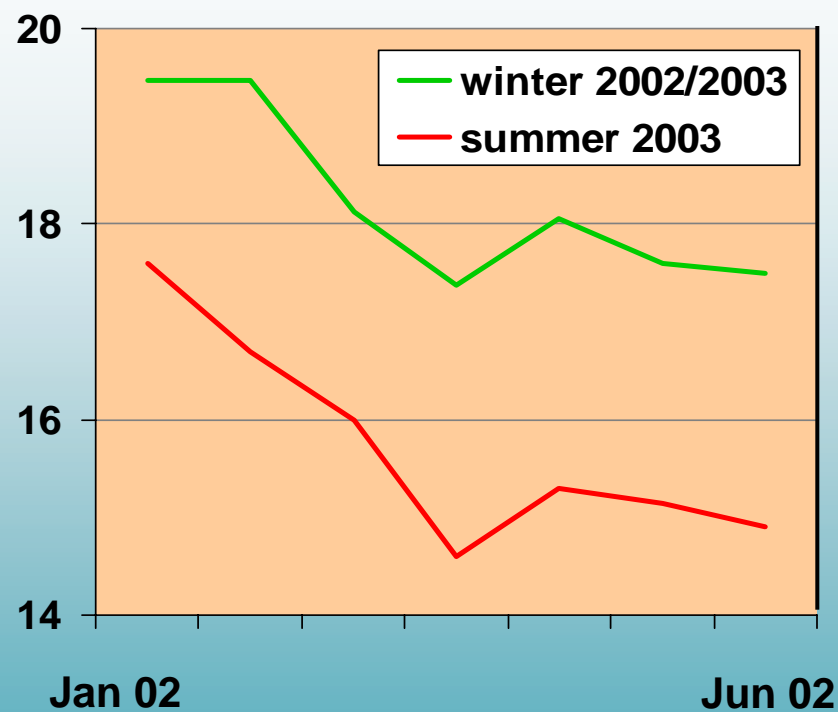
## Daily Balancing Prices

(£/MWh; average System Buy Prices)



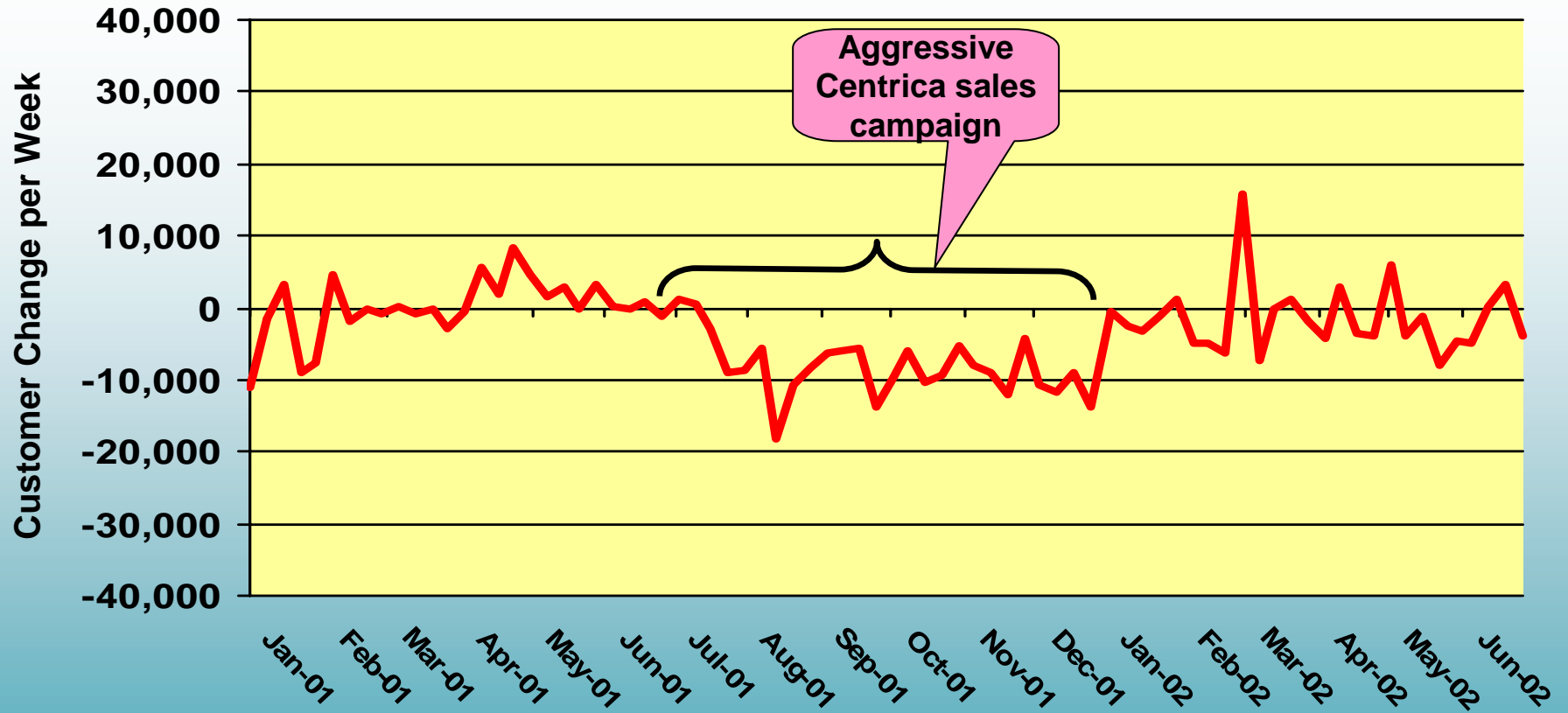
## Forward Wholesale Power Prices

(£/MWh; season forward price)



**Response - Address underlying energy cost base**

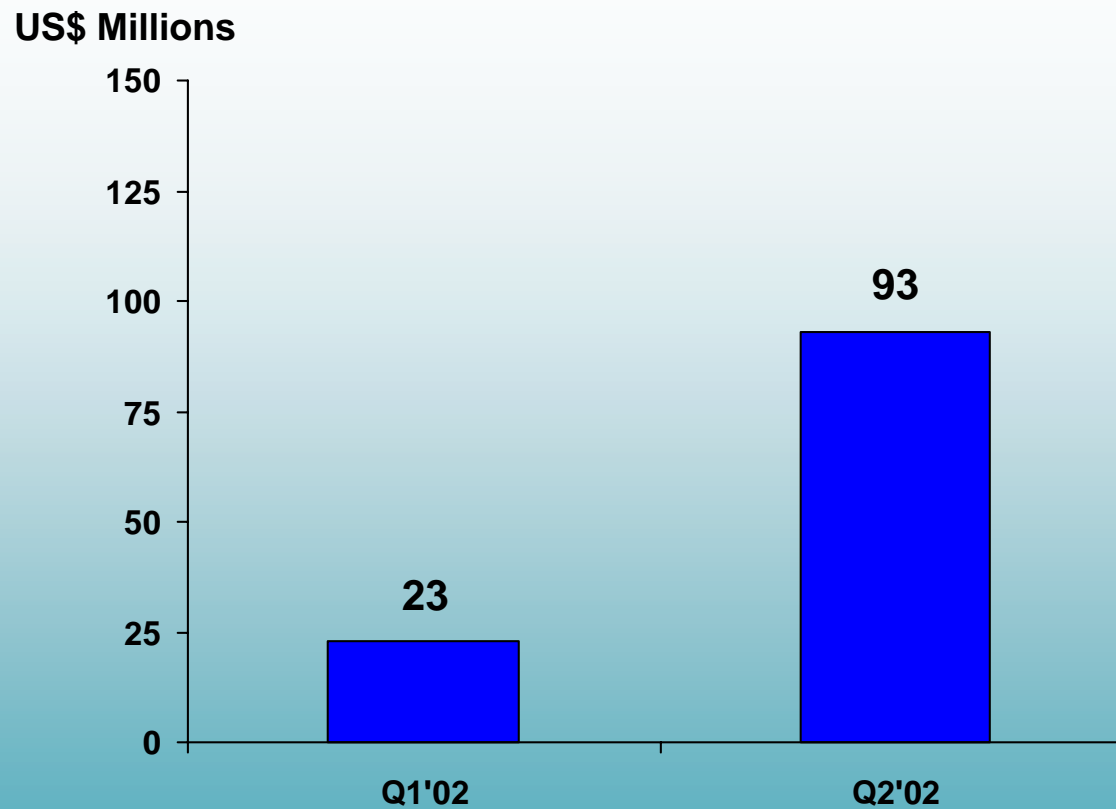
# UK Net Customer Movements



**Response – Cost effective retention and addition**

\*Excludes Amerada Hess retail customer acquisition

# Year to Date UK EBIT



**Significant recovery over Q1 results**

# Europe Priorities



- **UK retail customer retention and low cost additions**
- **Restructure long term UK power contracts**
- **Continue operational excellence and cost leadership**
- **Deliver further cash flow improvements**
- **Integrate new businesses**

# **Brian Dickie**

**President - TXU Energy, North America**

# Second Quarter Highlights



- **Strong first half performance**
- **Net income \$498M in 2002 vs. \$370M in 2001, 35% increase (Combined North America)**
- **Successful Texas market opening**
- **Comprehensive regulatory settlement approved**
- **Continued portfolio enhancement in Texas**
- **Cautious growth outside Texas**

# ERCOT Retail Market



- Overall competitive intensity lower than expected
- Net gain in mass market customers
- Some loss of C&I share but strong margin realization
- Price to Beat adjustment delayed
- Market systems problems improving

# North America Energy Priorities

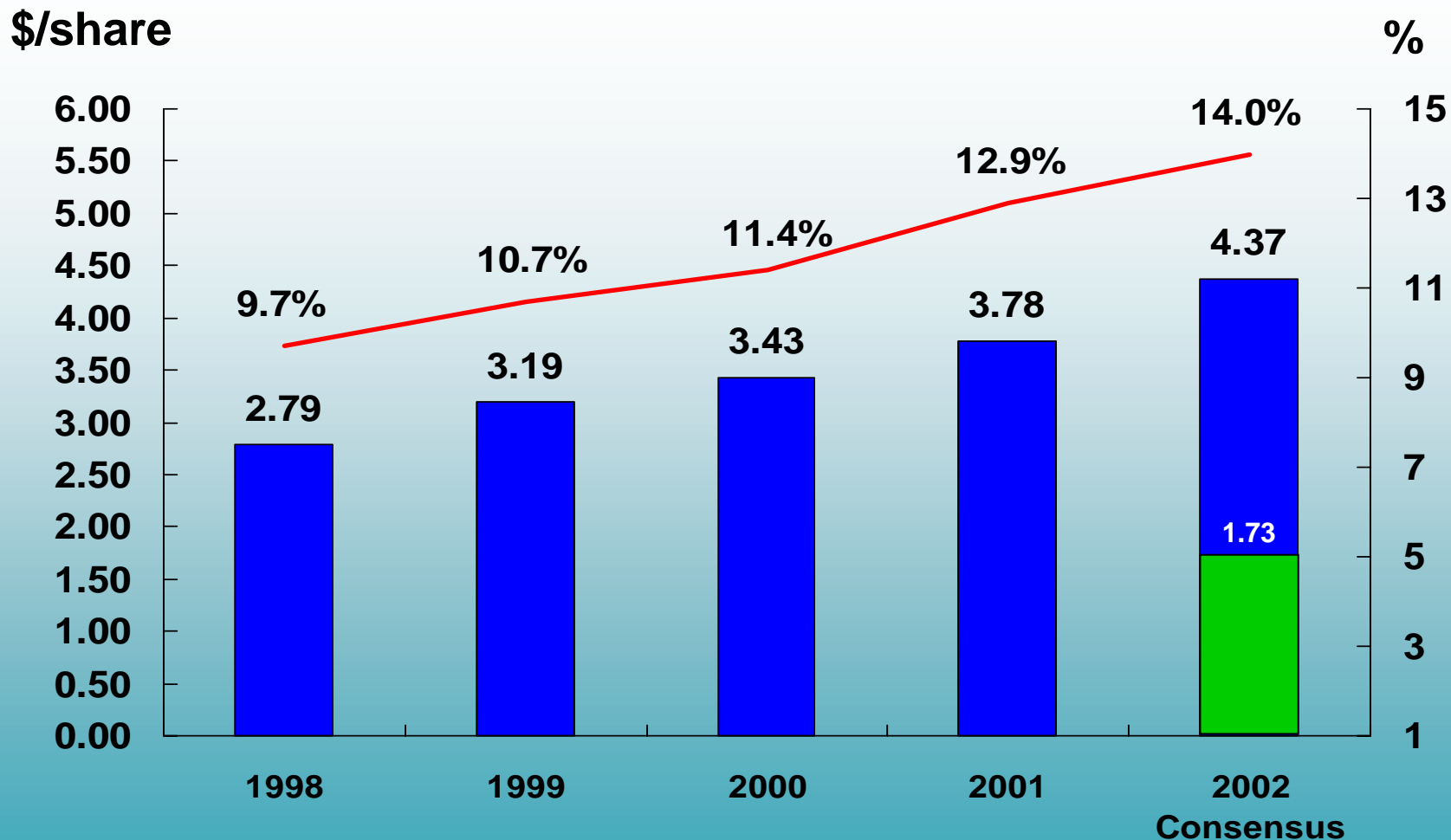


- **Deliver financial commitments**
- **Achieve PTB fuel factor adjustment**
- **Resolve remaining market transition issues**
- **Pursue prudent ex-Texas growth**
- **Capture cost restructuring opportunities**

# **Mike McNally**

## **Chief Financial Officer**

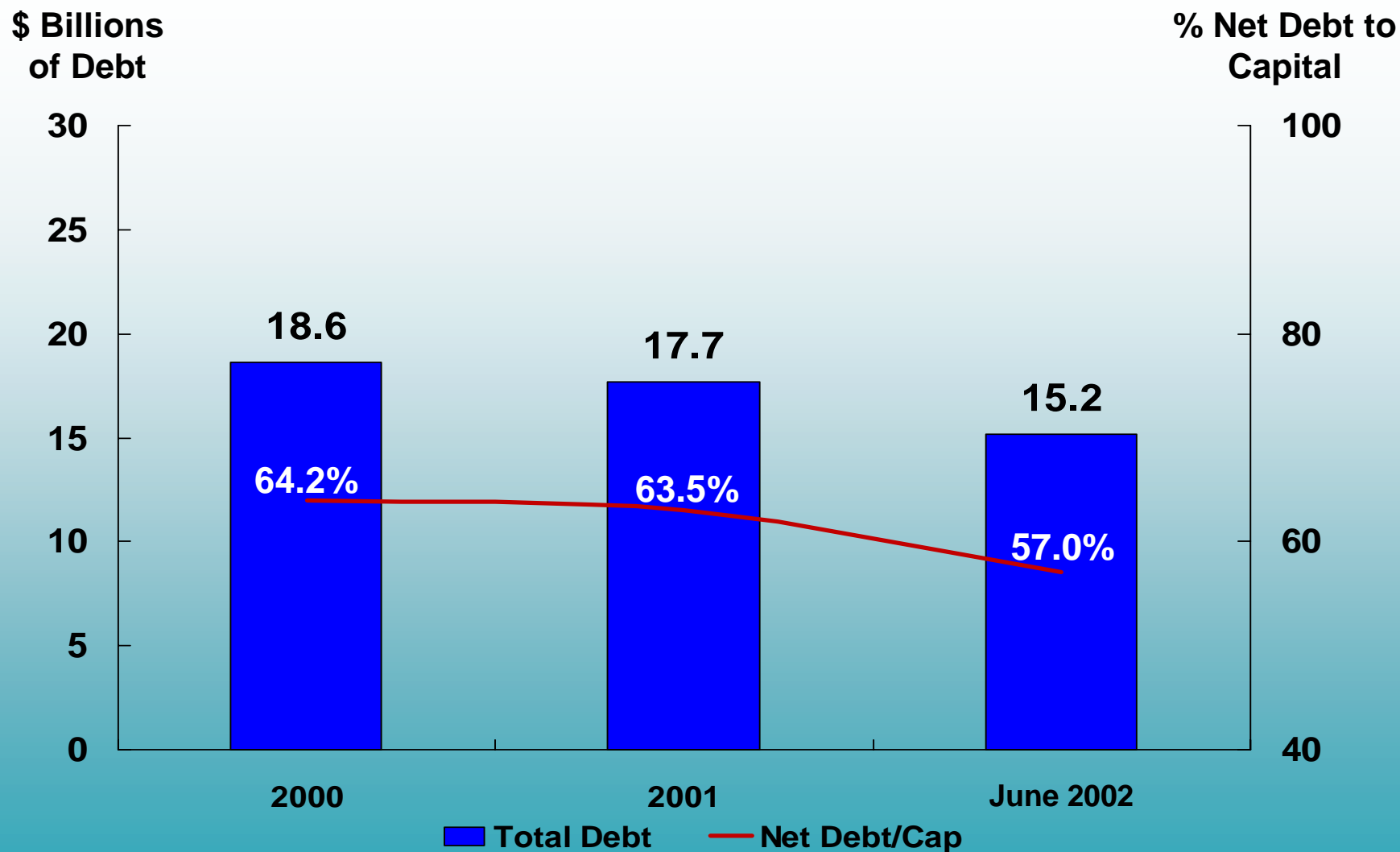
# Track Record of Financial Success



\* Excludes unusual items

■ EPS\*    — ROE\*  
■ EPS\* YTD 06/30/02

# Enhanced Credit Strength



\* Note: Excludes equity-linked securities

# Indicative Net Income (Millions)



	<u>2002</u>	<u>2003</u>
<b>Energy</b>		
<b>N. America</b>	<b>\$690</b>	<b>\$725</b>
<b>International</b>	<b><u>440</u></b>	<b><u>555</u></b>
<b>Total</b>	<b>\$1,130</b>	<b>\$1,280</b>
<b>N.A. Energy Delivery</b>	<b>300</b>	<b>315</b>
<b>Corp. &amp; Other</b>	<b><u>(240)</u></b>	<b><u>(230)</u></b>
<b>Total</b>	<b>\$1,190</b>	<b>\$1,365</b>

# Indicative Cash Flow (Millions)



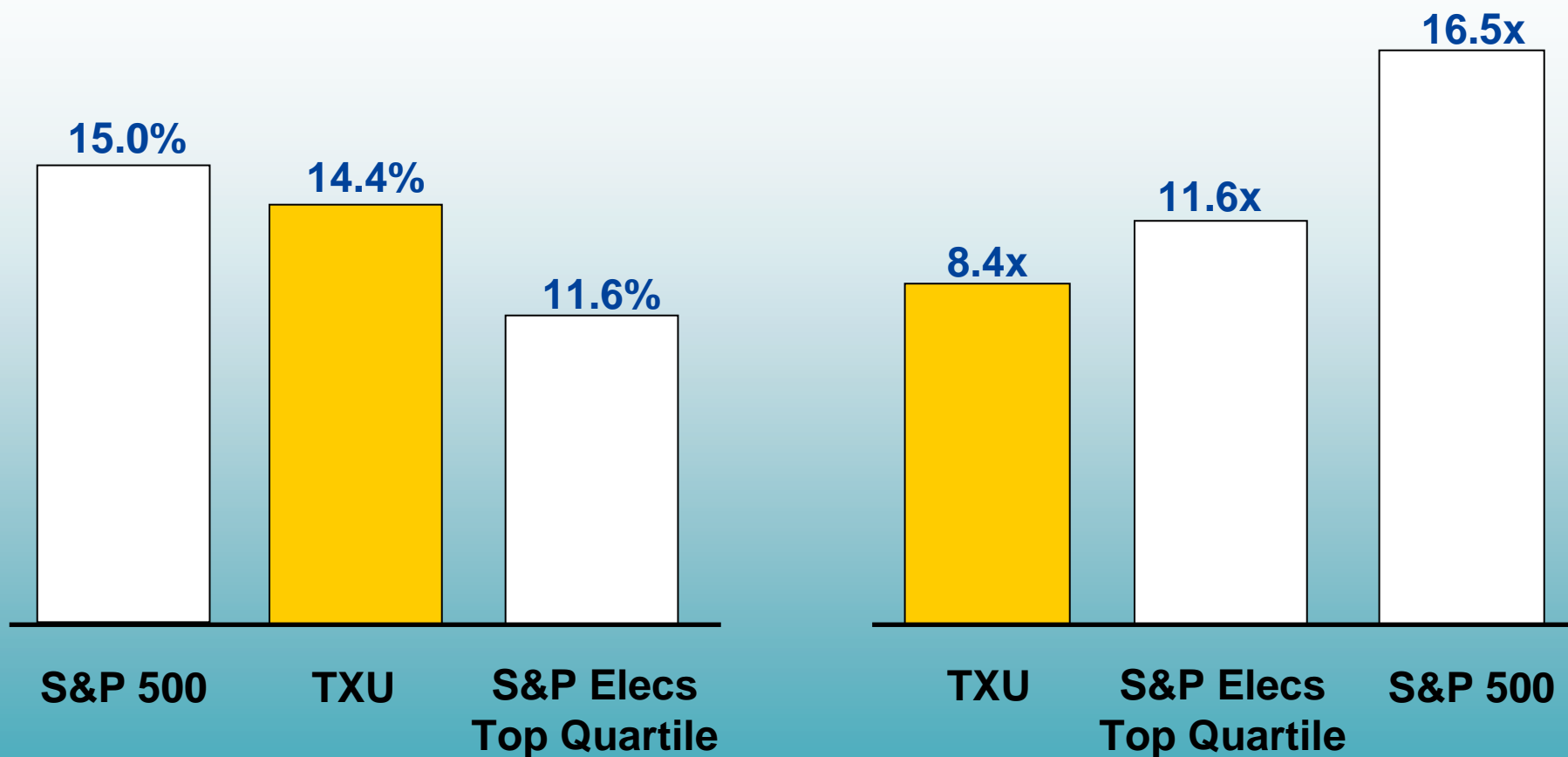
	<u>2002</u>	<u>2003</u>
Cash from operations	\$2,300	\$2,500
Asset sales	2,300	---
Equity issuance	1,080	40
Securitization	<u>---</u>	<u>500</u>
Total	\$5,680	\$3,040
Debt reduction	2,850	950
Dividend – common & pref.	<u>680</u>	<u>710</u>
Available cash flow	\$2,150	\$1,380

# Compelling Valuation Story



## 5 Year Total Return Estimates \*

## P/2003E \*



\* Source: Bloomberg and I/B/E/S as of 7/26/02