

Achieving Industry Leadership



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Chief Executive Officer
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Slide 1: TXU's Core Businesses



Generation



10 TCF

Hidden "Gas" Company

1. Long gas price
2. Long spark spread
3. Long volatility

Retail



Largest Deregulated Electric Marketer

1. Attractive margins
2. Loyal customers
3. Constructive regulations

Oncor/TXU Gas



National Scale Transportation Company

1. Growing markets
2. Constructive regulations
3. Major regulatory issues resolved

Supply and Trading

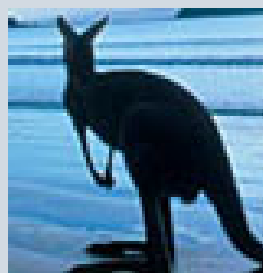


>100TWh

Supply/Trading Company

1. Large wholesale gas and power purchases
2. Fragmented wholesalers and retailers

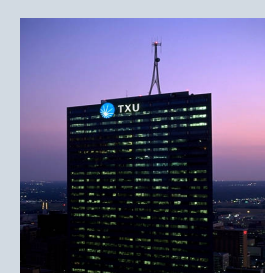
TXU Australia



Strong Positioned Integrated Player

1. Good assets in high growth market
2. Large gas storage

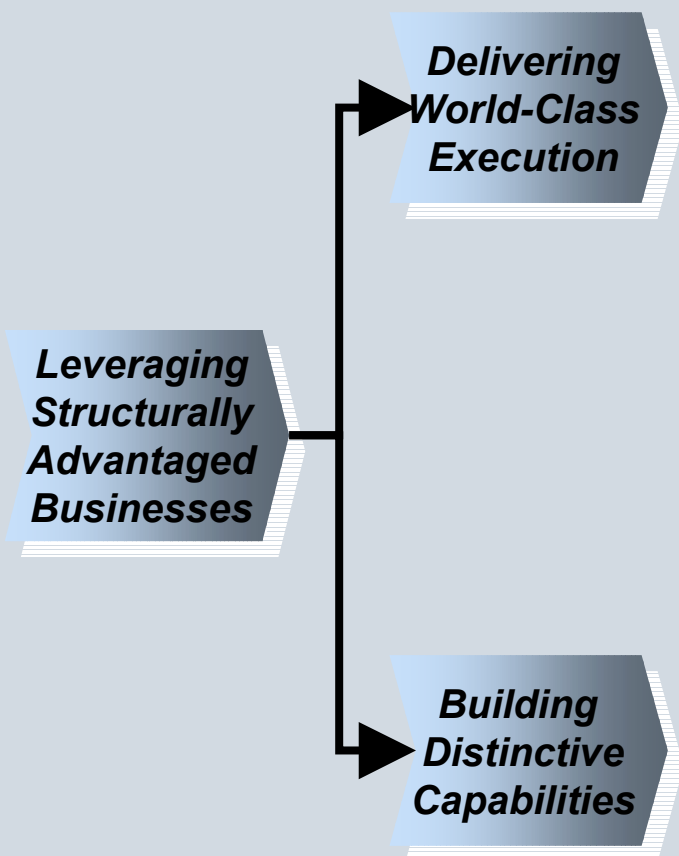
Corporate Center



Industrialized Corporate Center

1. Driving strategy and execution
2. Risk allocation and management

Slide 2: “4 + 4” Program



- 1 Cost Leadership**
 - Top quartile/top decile cost performance in solid fuels
 - Lowest SG&A cost per dollar of revenue
- 2 Operational Excellence**
 - Top quartile SADI and SAFI
 - Top quartile/top decile solid fuel capacity factors
- 3 Market Leadership**
 - Minimal net share loss in residential retail
 - Strong brand with high value/service perception
- 4 Commercial Excellence**
 - Lowest cost of fuel/power supply
 - Growing third-party business

- 1 Performance Management**
 - Clear targets and aligned incentives
 - Senior team ownership of priority initiatives
- 2 Customer Excellence**
 - Best-in-class management of customer life cycle
 - Effective stewardship of TXU brand
- 3 Risk/Portfolio Management**
 - Complete understanding of enterprise risk
 - World-class control systems, prudent risk management
- 4 Profitable Growth**
 - ‘Earn the right to grow’ first
 - Positioned to lead industry consolidation

Slide 3: Improved Financial Condition



(\$ in millions except for EPS)	EPS \$/share	FCF ¹	ROIC ²	Net Debt ³	Debt/ Tot. Cap ²	EBITDA/ Interest ²
03 Base Case [@379m shares]	2.03	484	6.4%	12,211	65%	2.9
Debt repayment [OCF & sec. bonds]	0.22	41	0.2%	(2,283)	(11%)	0.5
06 Base Case	2.25	525	6.6%	9,928	54%	3.4
Impact of 31m CEU shares issuance	(0.17)	0	0.0%		0%	0.0
Debt impact of CEU shares issuance	0.15	53	0.0%	(1,532)	(8%)	0.4
Net impact of CEU issuance	(0.02)	53	0.0%		(8%)	0.4
Underlying volume growth ⁴	0.21	102	0.4%	(199)	(1%)	0.3
06 Base Case + Underlying Growth	2.44	680	7.0%	8,197	45%	4.1
4+4 Performance Improvements						
Cost leadership	0.43	203				
Operations excellence	0.07	94				
Market leadership [net share loss]	(0.13)	(63)				
Commercial excellence	0.14	68				
Debt impact from 4+4 improvements	0.05	26		(638)		
4+4 Performance Improvements Total	0.56	328	1.1%	(638)	(3%)	0.6
06 Operational target	3.00	1,008	8.1%	7,559	42%	4.7
Contingency	(0.25)	(119)	(0.5%)	230	1%	(0.3)
06 Financial Aspiration [@410m shares]	2.75	889	7.6%	7,789	43%	4.4
03- 06 Absolute Improvement	0.72	405	1.2%	(4,422)	-22%	1.5x
03- 06 Percent Improvement	35%	84%	19%	-36%	-34%	52%

- 1 Net income + depreciation + changes in deferred taxes - capex - common dividends - preferred dividends
- 2 Does not include securitized debt, interest charges for securitized debt, debt, or EBITDA impact of CTC charges
- 3 Reduced debt shows the reduction in net debt (net of \$800 MM of securitized bonds)
- 4 1.5% market growth constant share

Slide 4: 90 Day Plan



Week	Engage Employees	Engage Customers And Shareholders	Build Management Team	Develop Detailed Business Plans
1-2	1. Engage employees		1. Begin meeting with all level 1 and 2 leaders	1. Define business plan requirements
3-4	2. Site visits	1. Meet with select customers and shareholders	↓	2. Review initial plans by business
5-6	3. Present aspirations to top 600 managers	2. Continue visits		3. Adjust plans
7-8	4. Site visits ↓	↓	3. Secure personal commitments	4. Scope and quantify key improvement areas
9-10			4. 75% of level 1 announced	
11-12		3. Investment community presentation	5. 50% of level 2 announced	5. Level 1 team presents business plans to board and investment community

Slide 5: Development of Business Plans



Business Context

Identify Structural Advantages in the Business

- Asset-based
- Customer-based
- Cost-based

Defining the Business Model

- Economic/Value Drivers
- Advantage Relative to Competition
- Sustainability

Assessing the People

- Key Team Members
- Distinctive capabilities
- Gaps

“4 + 4 Priorities”

Execution

- 1 Cost Leadership
- 2 Operational Excellence
- 3 Market Leadership
- 4 Commercial Excellence

Capabilities

- 1 Performance Management
- 2 Customer Excellence
- 3 Risk/Portfolio Management
- 4 Profitable Growth

Aspirations

Financial Performance Opportunity

- EBIT growth
- EPS growth
- ROIC







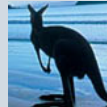

Organizational Goals

- Industry Leadership
- Performance Management Culture
- Preferred Employer

Slide 6: Superior Execution Leads to Substantial Value



Advantaged Business Positions

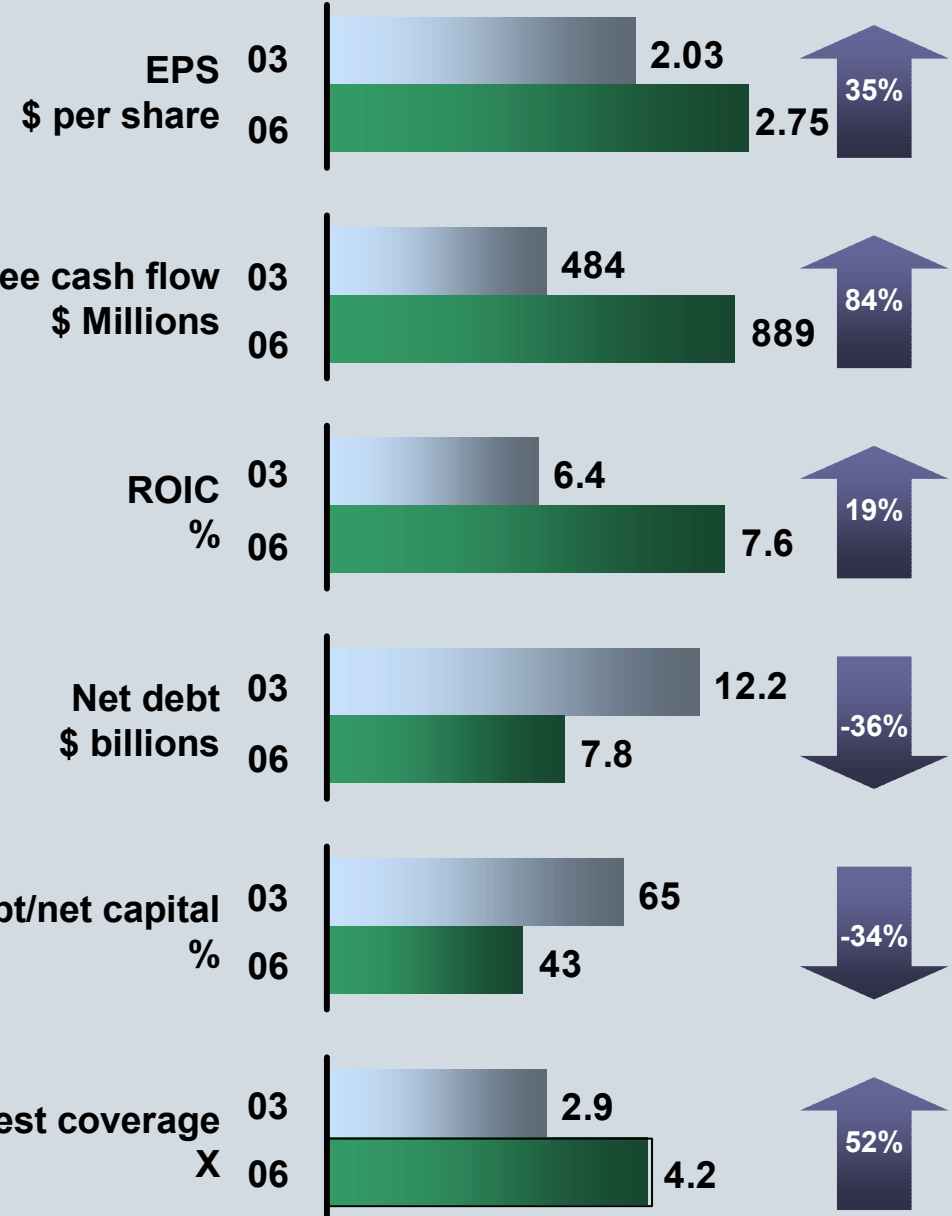
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Performance Potential (4+4)



Financial Performance Leadership



APPENDIX



Reconciliation: Free Cash Flow

Year Ended December 31, 2003

Free Cash Flow	\$ million
Net income	737
Depreciation	959
Deferred taxes	<u>10</u>
Funds flow	1,706
Capital expenditure	(956)
Nuclear fuel	(44)
Other	(40)
Common dividend	(160)
Preferred dividend	<u>(22)</u>
Free cash flow	<u>\$ 484</u>

Free cash flow is a non-GAAP financial measure used in this presentation as a measure of cash available for potential debt reduction initiatives.

Reconciliation: Return on Invested Capital

Year ended 12/31/03



Per Slide 3: Improved Financial Condition	\$ million
<u>EBIT for the year ended 12/31/03</u>	
Operating revenues	11,008
Cost of energy sold and delivery fees	4,947
Operating costs	1,665
Depreciation and amortization	886
Selling, general and administrative expenses	1,108
Franchise and revenue-based taxes	<u>456</u>
EBIT	1,946
Tax at 35%	<u>681</u>
After-tax EBIT	<u><u>1,265</u></u>
<u>Invested Capital as of 12/31/03</u>	
Commercial paper	58
Notes payable - banks	39
Long-term debt due currently	677
Long-term debt, less amounts due currently	12,324
Preferred securities of subsidiaries	759
Total shareholders' equity	<u>5,919</u>
Total invested capital	<u><u>\$ 19,776</u></u>
ROIC	6.4%

Return on invested capital is calculated by dividing earnings before interest and taxes (EBIT) by total invested capital. EBIT is a non-GAAP financial measure that is used in this presentation as an alternative measure of earnings. ROIC is a commonly used measure to evaluate business performance versus capital invested.

Reconciliation: EBITDA/Interest

Year ended 12/31/03



EBITDA/Interest

\$ million

Per Slide 3: Improved Financial Condition

Operating revenues	11,008
Cost of energy sold and delivery fees	4,947
Operating costs	1,665
Selling, general and administrative expenses	1,108
Franchise and revenue-based taxes	<u>456</u>
EBITDA	2,832
Interest expense	<u>975</u>
EBITDA/Interest	<u>2.9</u>

EBITDA to interest expense ratios are used as a measure of the ability to generate cash flow sufficient to pay fixed interest costs. EBITDA is a non-GAAP financial measure that is a measure of earnings before interest, income, interest expense and other charges, income taxes, depreciation and amortization, extraordinary losses and changes in accounting principles. EBITDA is a widely accepted financial indicator of a company's ability to incur and service debt.



Reconciliation: Net Debt to Capitalization

As of December 31, 2003 and As Discussed on February 23, 2004 Conference Call

	\$ million
<u>Per Slide 3: Improved Financial Condition</u>	
Cash and cash equivalents	(875)
Long-term debt held by subsidiary trusts	546
Notes payable - banks	39
Long-term debt due currently	677
Long-term debt, less amounts due currently	12,324
Transition(securitization) bonds	(500)
Net debt	<u>12,211</u>
Net debt	12,211
Preferred securities of subsidiaries	759
Total shareholders' equity	<u>5,919</u>
Total capital	<u>\$ 18,889</u>
Net Debt/Total Capital	<u>65%</u>

Net debt as discussed on the 2/23/04 conference call is a non-GAAP financial measure used in this presentation to target leverage improvement.

Reconciliation of Net Debt to Capitalization Ratio at December 31, 2003 as Previously Disclosed



	Dollars in Millions		
	Financial		
	<u>Statements</u>	<u>Adjustments</u>	<u>As Adjusted</u>
Cash	875		875
Restricted cash	594	(69)(a)	<u>525</u>
Total cash			1,400
Notes payable	97		97
LTD, due currently	677		677
LTD held by subsidiary trusts	546	(546)(b)	-
LTD	<u>12,324</u>	(1,940)(c)	<u>10,384</u>
Total Debt	13,644		11,158
Total Debt Less Total Cash (Net Debt)			9,758
LTD held by subsidiary trusts	-	546(b)	546
Preferred securities of subsidiaries	759		759
Shareholders' Equity	<u>5,919</u>	1,440(c)	<u>7,359</u>
Total Capitalization	20,322		18,422
Ratio of Debt to Capitalization			67.1%
Ratio of Net Debt to Capitalization			53.0%

Net debt is a non-GAAP financial measure used by management to target leverage improvement.

- (a) Adjusted to include only the restricted cash in trust to secure the 5 year revolving credit facility.
- (b) Adjusted to reflect preferred stock characteristics of these securities (trust originated preferred securities).
- (c) Adjusted to reflect the equity-linked features of \$1.440 billion of Equity Units and Prides, and the off credit treatment of \$500 million of securitization bonds.

Reconciliation of Net Debt to Capitalization Ratio at December 31, 2002 as Previously Disclosed



Dollars in Millions

	Financial Statements	Adjustments	As Adjusted
Cash	1,573		1,573
Restricted Cash	306	(96)(a)	210
Total Cash			1,783
Notes Payable	2,324		2,324
LTD, due currently	958		958
LTD held by subsidiary trusts	546	(546)(b)	-
LTD	<u>11,593</u>	(2,079)(c)	<u>9,514</u>
Total Debt	15,421		12,796
Total Debt Less Total Cash (Net Debt)			11,013
LTD held by subsidiary trusts	-	546(b)	546
Preferred securities of subsidiaries	211	639(c)	850
Shareholders' Equity	<u>5,066</u>	1,440(c)	<u>6,506</u>
Total Capitalization	20,698		18,915
Ratio of Debt to Capitalization			74.5%
Ratio of Net Debt to Capitalization			58.2%

Net debt is a non-GAAP financial measure used by management to target leverage improvement.

- (a) Adjusted to include only the restricted cash in trust to pay the 2003 Oncor maturity.
- (b) Adjusted to reflect preferred stock characteristics of these securities (trust originated preferred securities).
- (c) Adjusted to reflect the equity linked features of \$1.440 billion of Equity Units and \$639 million (net of discount) of the \$750 million principal amount of exchangeable subordinated notes.