



# **TXU First Quarter Update**

## **May 1, 2001**

# Safe Harbor Statement



***This presentation contains forward looking statements, which are subject to various risks and uncertainties. Discussion of factors that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in the company's SEC filings. In addition to the factors set forth in the company's SEC filings, other factors which could affect the forward looking statements contained in this presentation include prevailing government policies on environmental, tax or accounting matters, regulatory actions, weather conditions, unanticipated population growth or decline and changes in market demand and demographic patterns, changing competition for customers including the deregulation of the U.S. electric utility industry and the entry of new competitors, pricing and transportation of crude oil, natural gas and other commodities, financial market conditions including unanticipated changes in interest rates, rates of inflation, or foreign exchange rates, unanticipated changes in operating expenses and capital expenditures, legal and administrative proceedings and settlements, inability of the various counterparties to meet their obligations with respect to financial instruments, and changes in technology used and services offered by TXU Corp.***

# Agenda

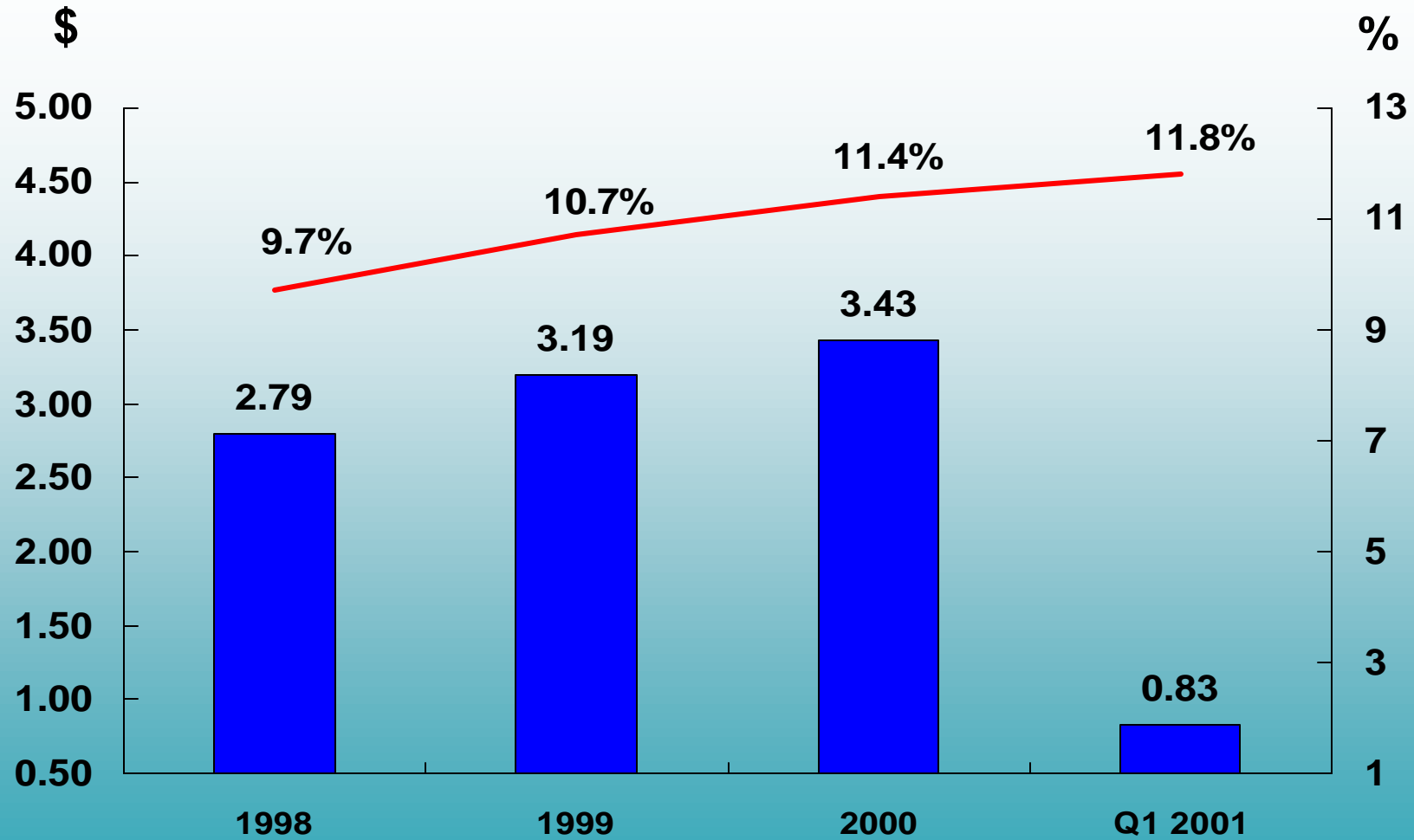


- **Introduction**                      **Jarrell Gibbs**
- **Europe Energy**                      **Paul Marsh**
- **US Energy**                              **VJ Horgan**
- **Financial Update**                      **Mike McNally**
- **Q&A**

# Introduction

**Jarrell Gibbs**  
**Vice Chairman**

# Financial Performance



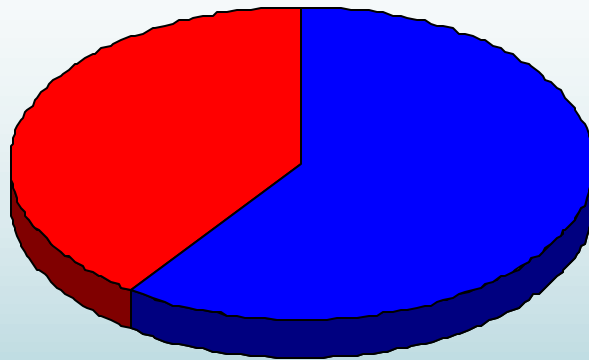
\* Excludes non recurring items

■ EPS\* — ROE

# TXU Corp. - 2002



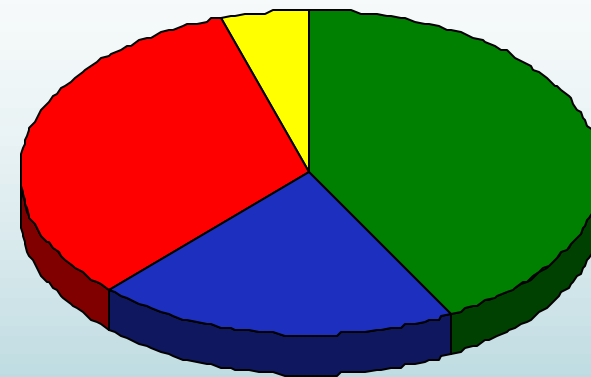
EBIT



Projected 2002

■ Networks      ■ Merchant Energy

EBIT



Projected 2002

■ US Electric & Gas      ■ US Energy  
■ TXU Europe      ■ TXU Australia

# Enhancing Shareholder Value



- **Deliver growth from existing businesses**
- **Create opportunity with Texas restructuring**
- **Diversify US assets outside of Texas**
- **Structural separation of merchant energy and network business**
- **Capture substantial value from global merchant energy business**
- **Strengthen credit**

# Europe Energy

**Paul Marsh**  
**Chief Financial Officer, TXU Europe**

# Highlights Q1 2000 - TXU Europe



- **Strong merchant energy earnings growth**
- **Stadtwerke Kiel**
- **Disposal program delivering, more to follow**

# Strong Trading Portfolio Growth Across Europe



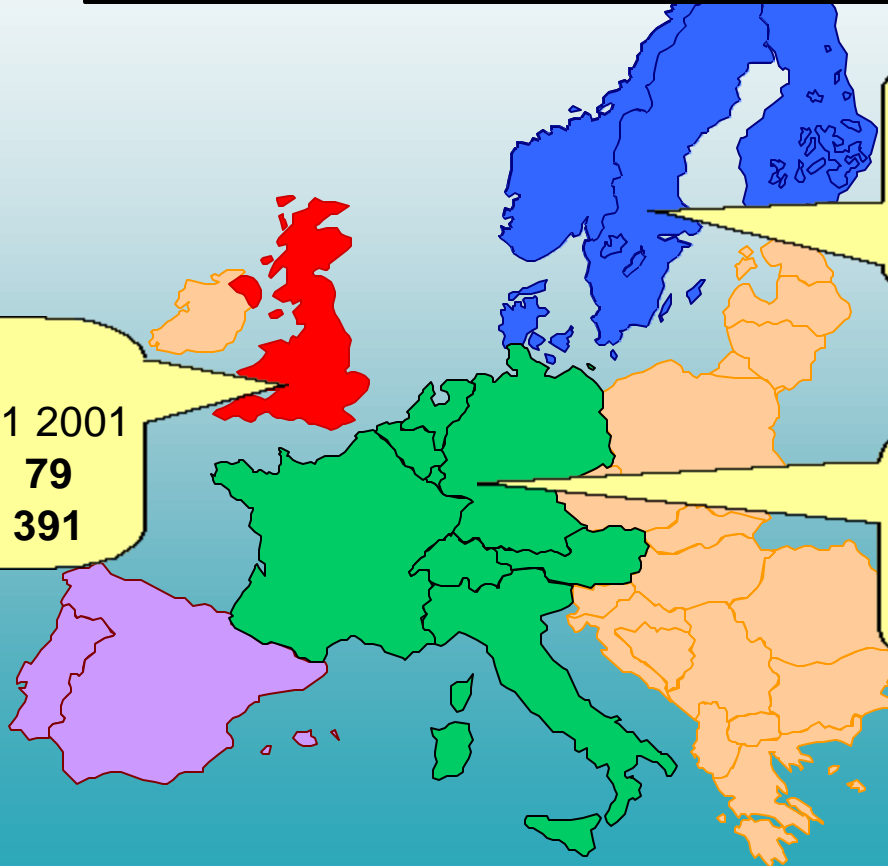
Q1 2001; traded Buy & Sell volumes, including Generation & Retail

<u>Total electricity &amp; gas (TWh)</u>			
	Q1 2000	Q1 2001	%growth
Energy	382	720	88%

<u>Nordic (TWh)</u>		
	Q1 2000	Q1 2001
Elec	69	185
Gas	n/a	n/a

<u>UK (TWh)</u>		
	Q1 2000	Q1 2001
Elec	72	79
Gas	212	391




<u>Central Europe (TWh)</u>		
	Q1 2000	Q1 2001
Elec	17	51
Gas	12	14

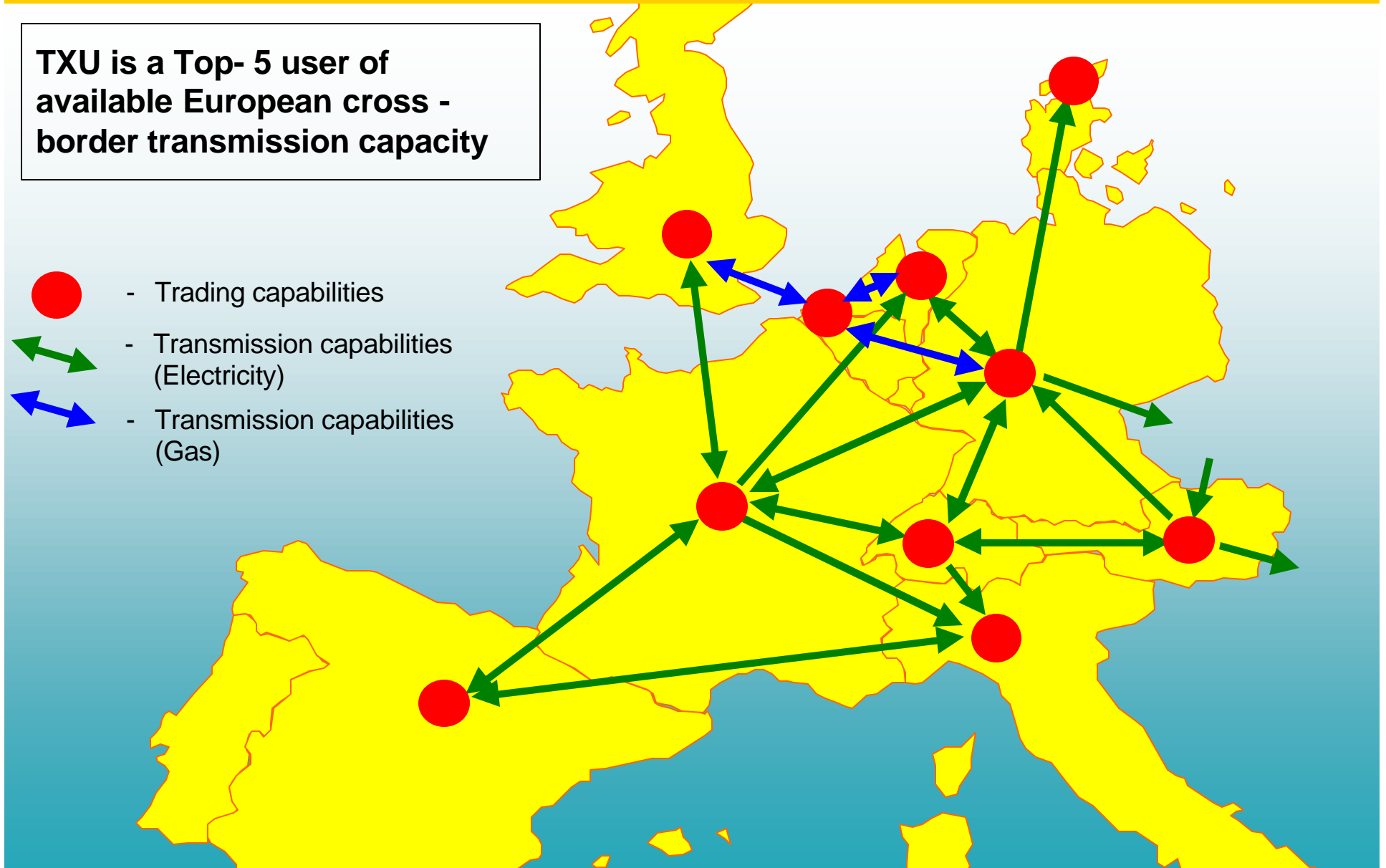


# TXU Has Built a 1,000 MW Flexible European Energy Wheeling Capability



TXU is a Top-5 user of available European cross-border transmission capacity

-  - Trading capabilities
-  - Transmission capabilities (Electricity)
-  - Transmission capabilities (Gas)



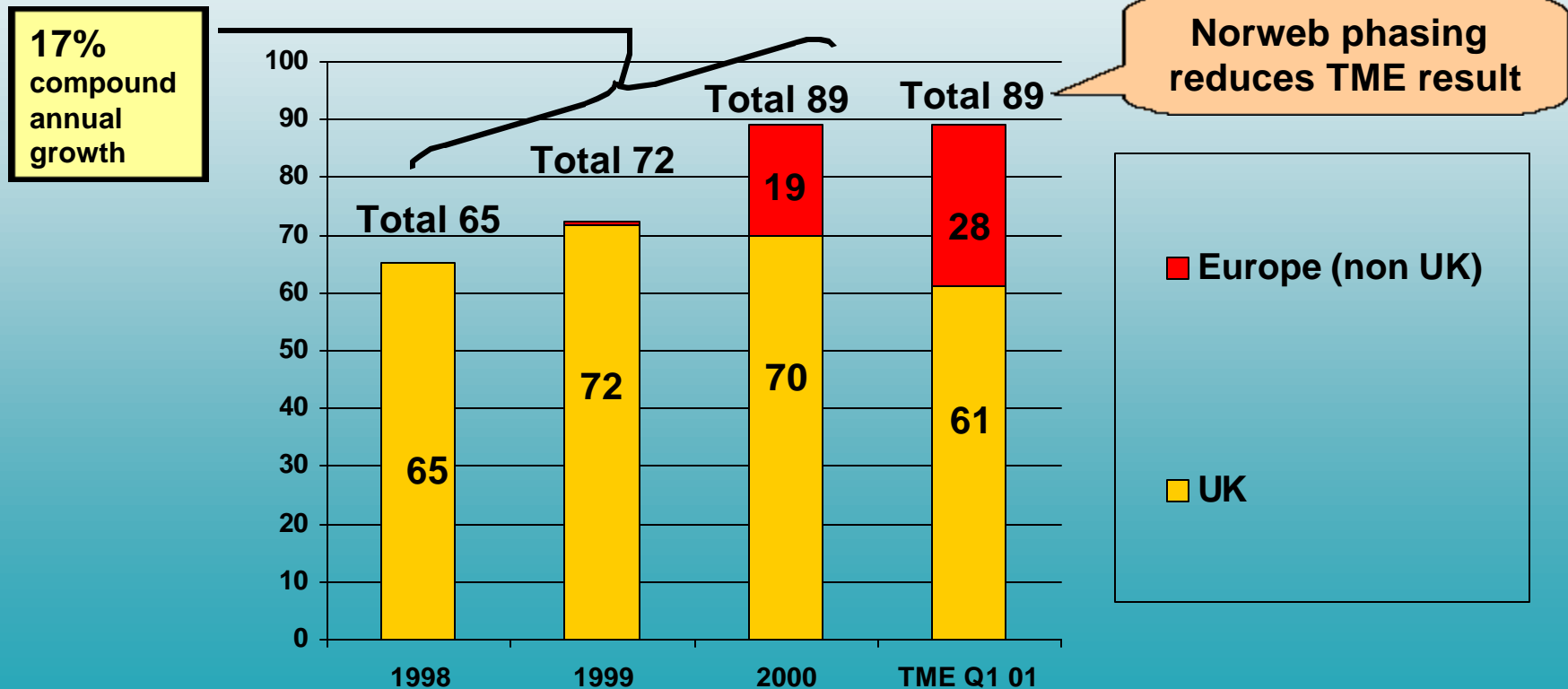
# Merchant Energy Growth



- UK energy stable in changing market conditions
- Strong growth in earnings contribution from other European markets

## Net Income; split between UK & rest of Europe

(£ m US GAAP; pre-restructuring)



# Market Conditions

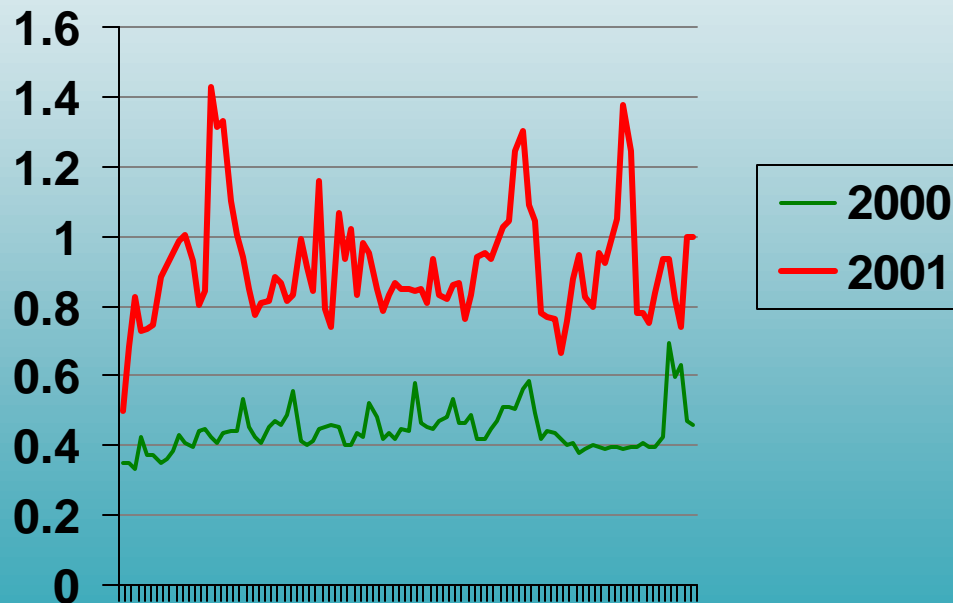
# UK Spot Markets



- **Gas prices:** Higher and more volatile
- **Power prices:** Lower and less volatile as market awaited NETA

## Q1 Wholesale Gas Prices

(pence/kWh)

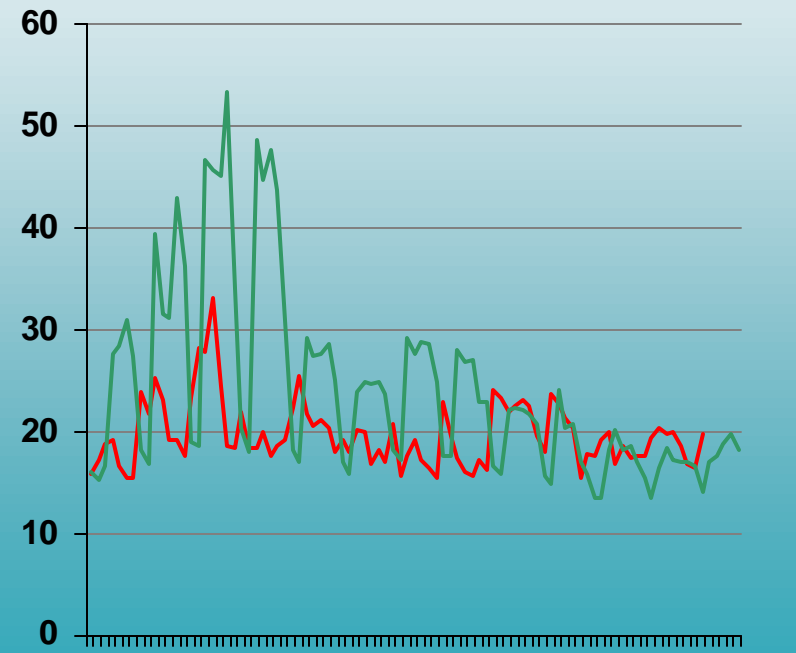


Jan 1

Mar 31

## Q1 Wholesale Power Prices

(£/MWh)



Jan 1

Mar 31

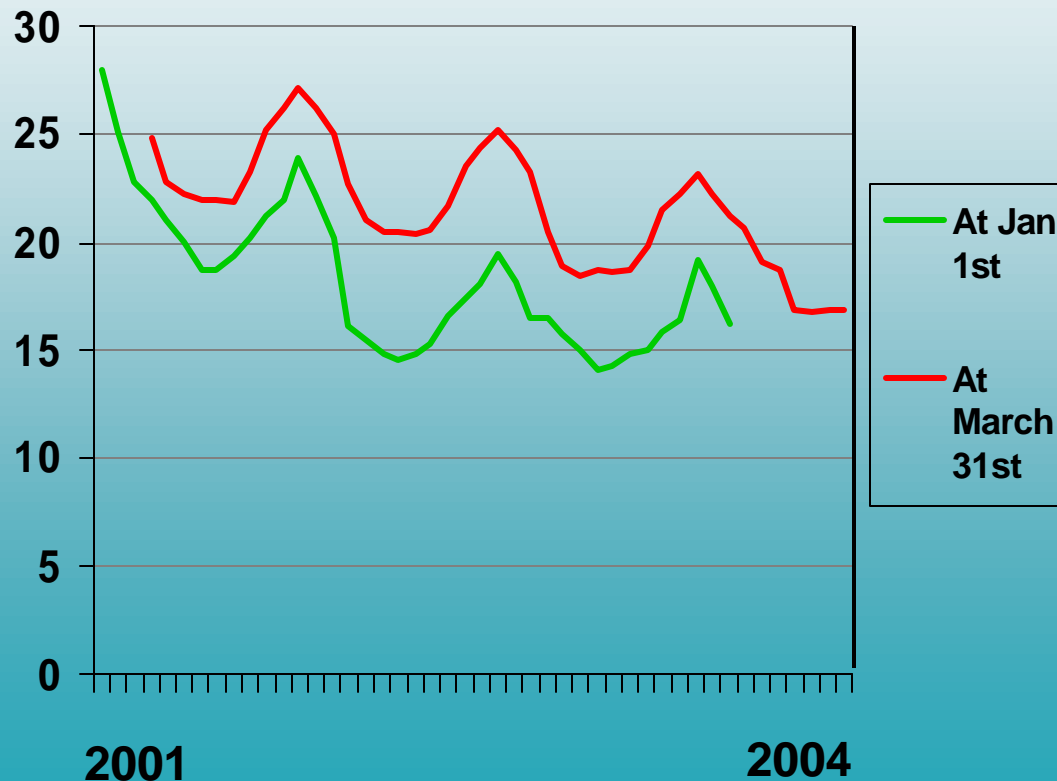
# UK Forward Markets



- Gas forward prices during Q1: Strongly rising
- Power forward prices during Q1: Slight decline as market awaited NETA

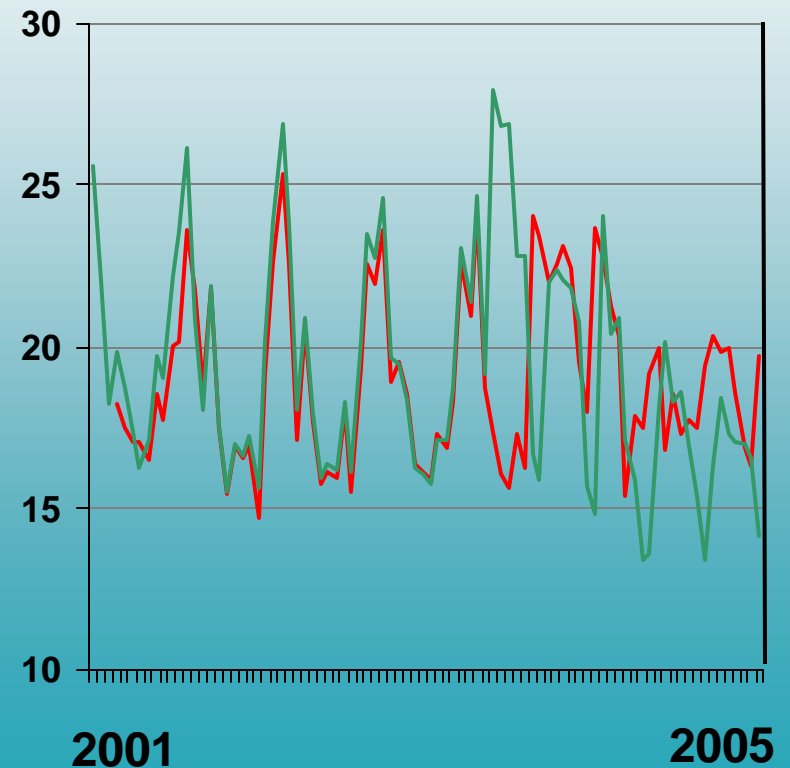
## UK Wholesale Gas Prices in Q1

(pence/therm, monthly forward buy price)



## UK Wholesale Power Prices in Q1

(£/MWh; monthly average forward)

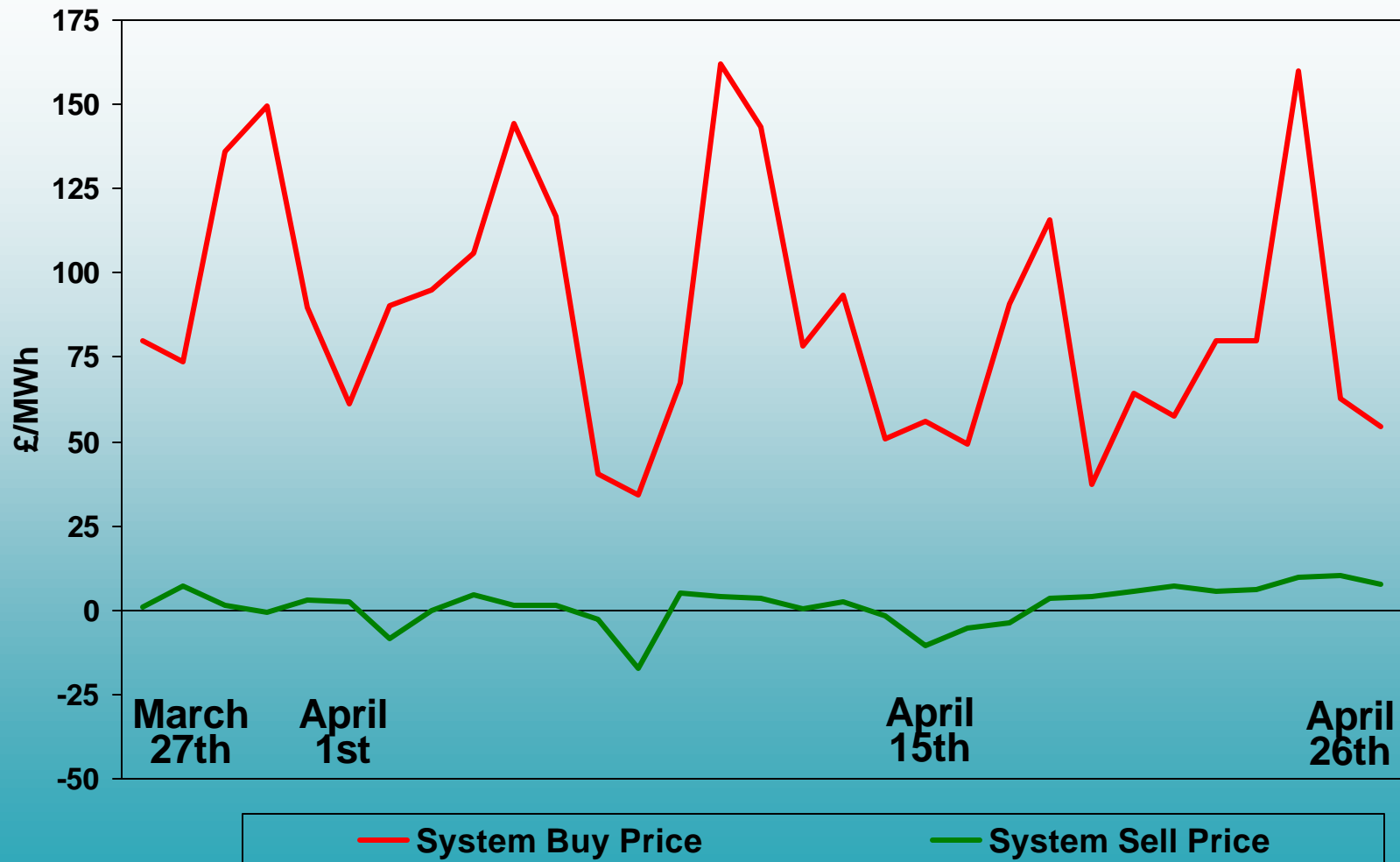


# NETA Balancing Market



## NETA Balancing Mechanism Cashout Prices

(Daily average for March 27th - April 26th 2001)

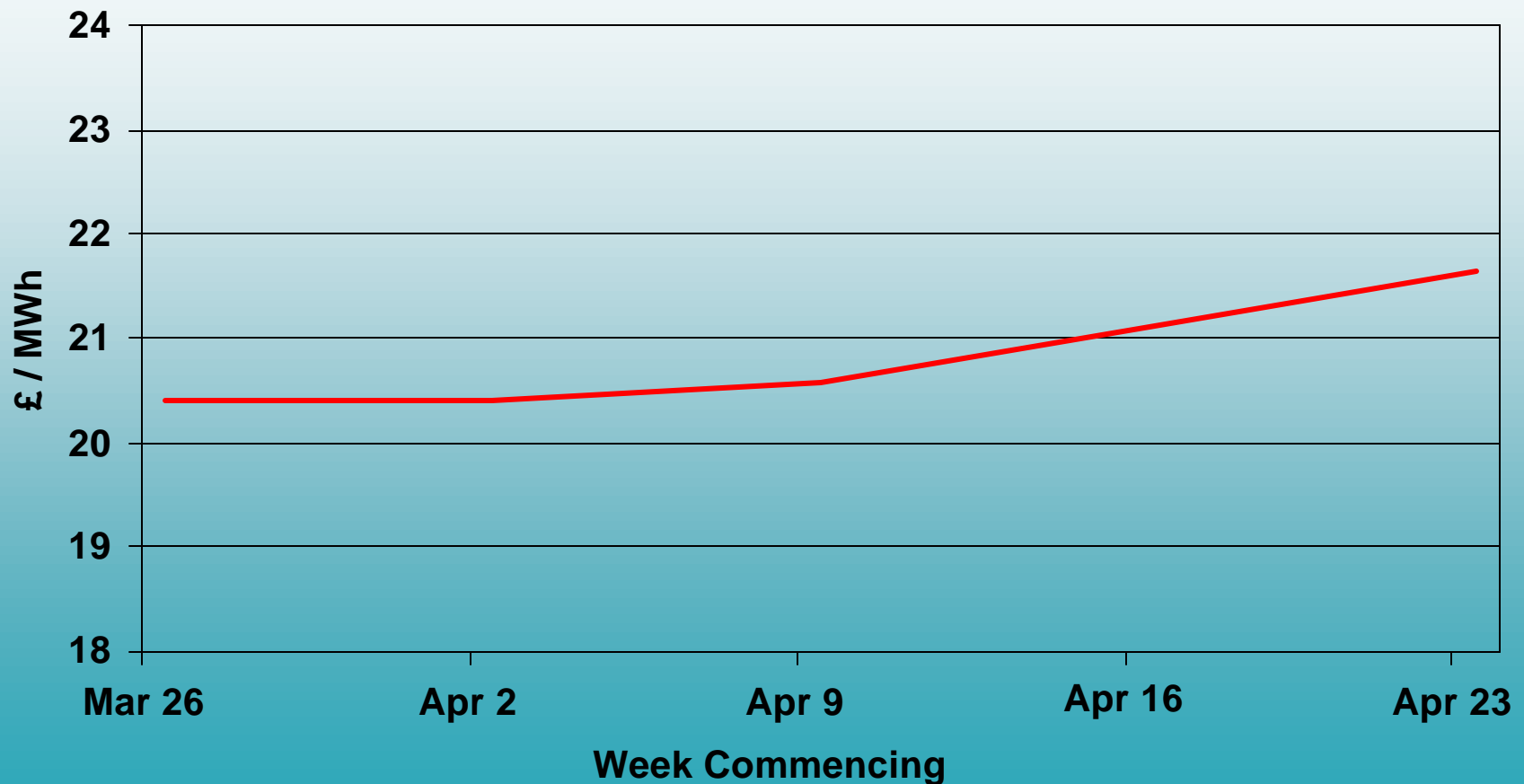


# UK Forward Curve Since NETA



- Since end-Q1, UK forward power prices for next winter have risen sharply

## Winter 2001 Baseload



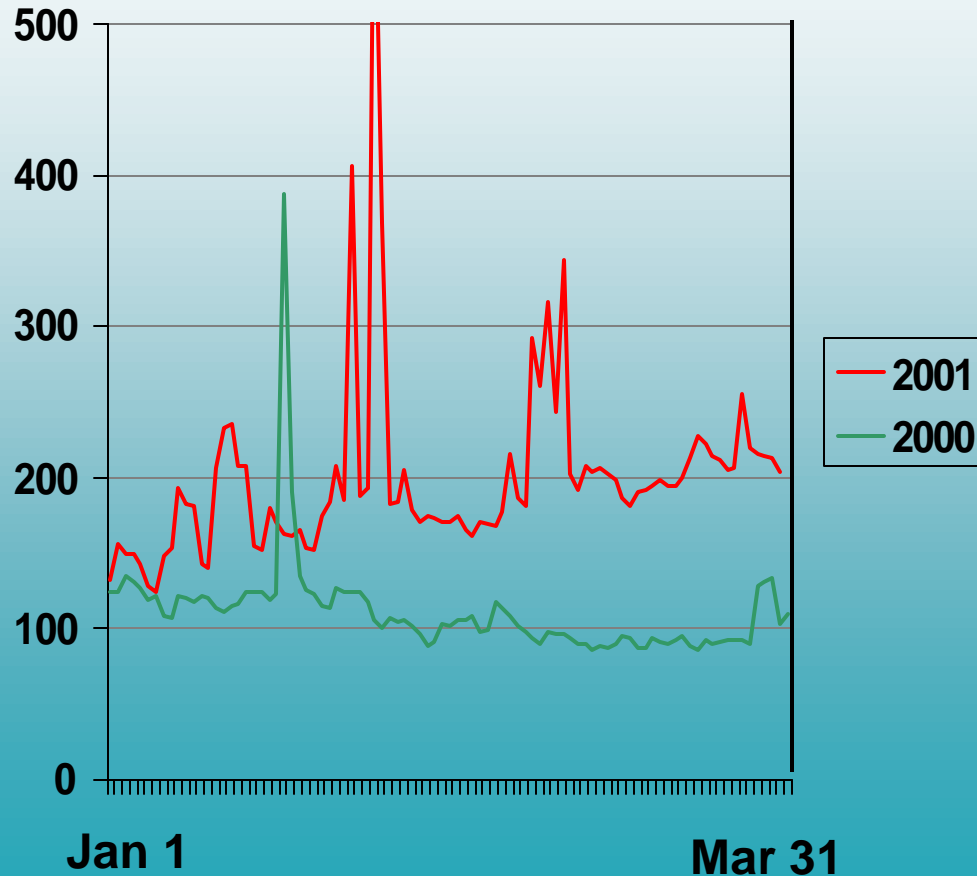
# Continental Spot Markets



- Nordpool power prices: Higher and more volatile
- German power prices: Lower and less volatile

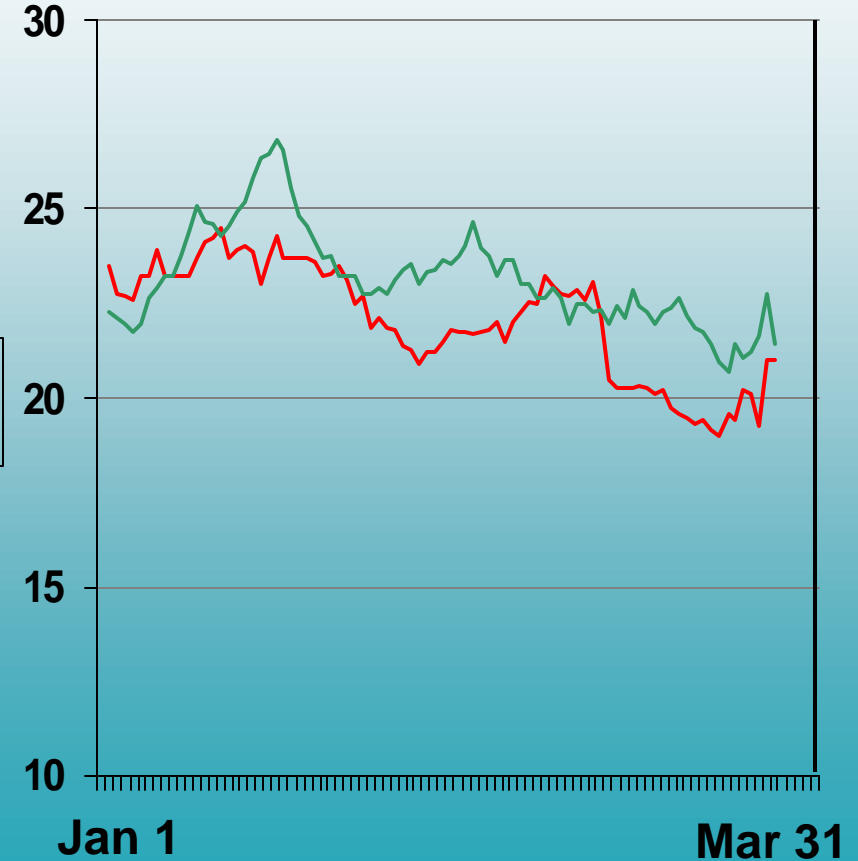
## Q1 Nordic Wholesale Power Prices

NOK/MWh; daily average Nordpool spot price



## Q1 German Wholesale Power Prices

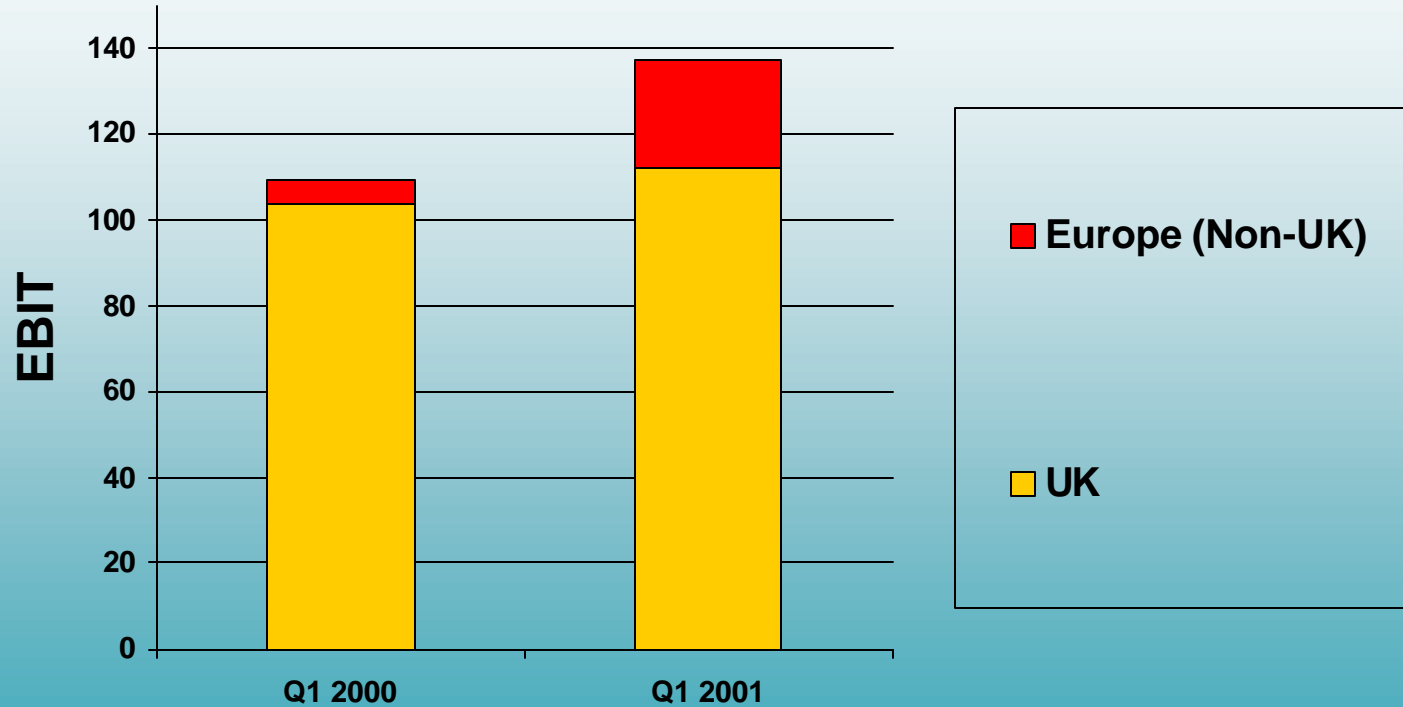
Euro/MWh; week ahead baseload prices



# Q1 Merchant Energy Growth



26% Growth



Note: £ m US GAAP; pre-restructuring

# How The Portfolio Works

# Europe Business



## Upstream

**Power Generation  
8,500 MW**

**Tolling / VPS capacity**

**Wholesale Contract  
/ Trading activity**

**Gas Storage & Supply**

## Portfolio Optimization

**Merchant  
Trading &  
Portfolio  
Management**

## Downstream

**5.6 million Gas  
& Electricity  
Domestic  
Customers**

**Over 200,000  
C&I Customers**

**Wholesale  
Contracts**

## Energy Delivery

**93,000 circuit km  
distribution network**

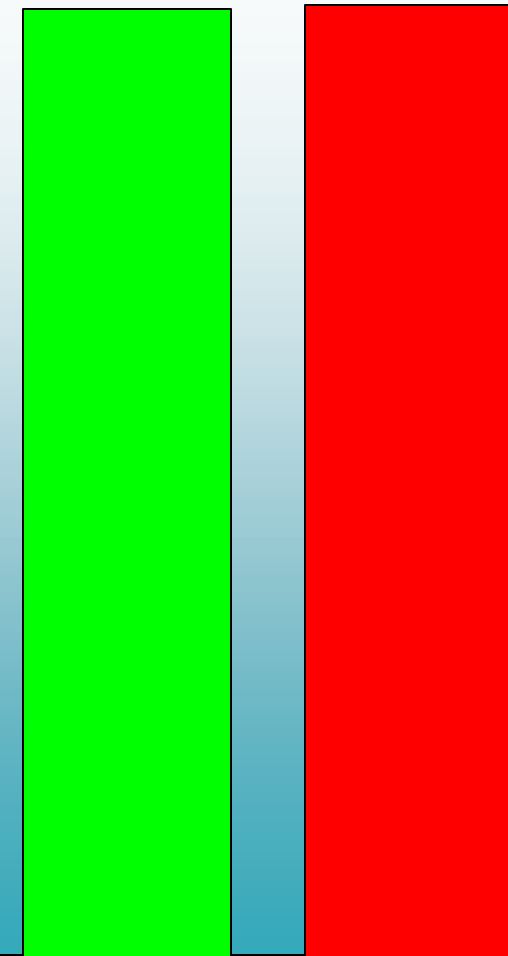
# UK Energy Portfolio in 2000



## UK Electricity

£ 482 m

£ 483 m



### EBITDA Total Energy Business

	<u>Total</u>	<u>UK Electricity</u>	<u>UK Gas</u>	<u>Non-UK</u>
<b>1999</b>	£537m	£482m	£58m	- £3m
<b>2000</b>	£595m	£483m	£57m	£55m

## Non-UK

- £ 3 m

£ 55 m

Nordic  
CE

1999

2000

## UK Gas

£ 58 m

£ 57 m

1999

2000

1999

2000

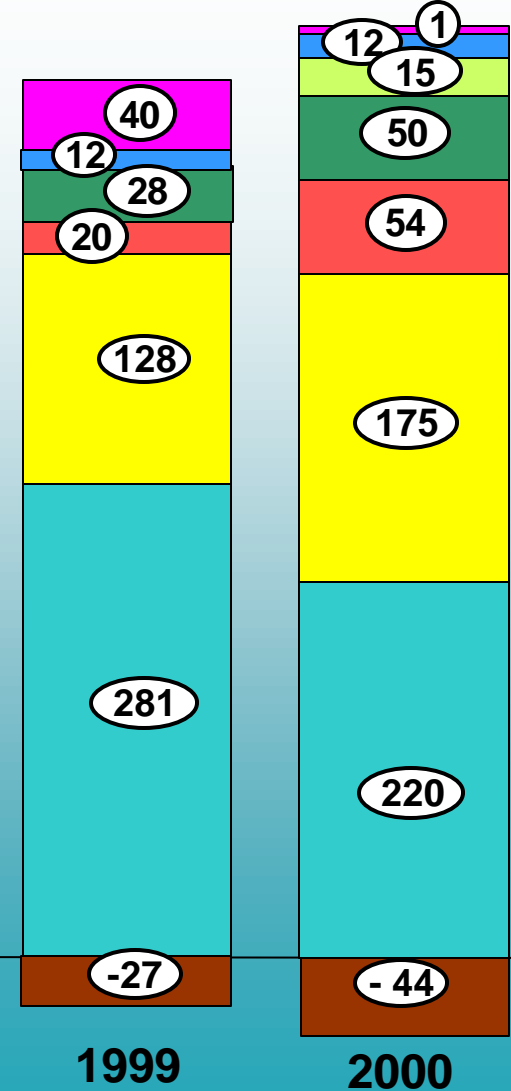
# UK Merchant Energy EBITDA - 2000



## UK Electricity

£ 482 m

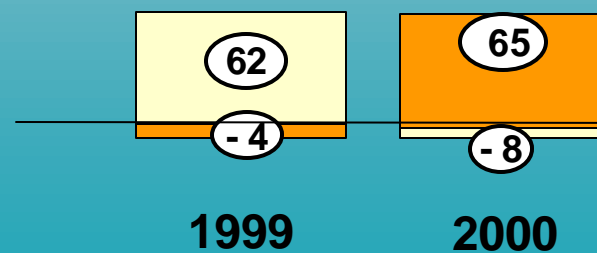
£ 483 m



## UK Gas

£ 58 m

£ 57 m



# Europe Energy: Key Aim for 2001



## Deliver 2001 earnings & cash flow targets by:

- **Continuing to deliver high growth from the merchant energy business**
- **Continuing operational excellence & cost leadership**
- **Re-shaping & development of portfolio in UK & continental Europe & strengthen balance sheet**
- **Separation of UK retail and networks**

# US Energy

**VJ Horgan**  
**President, TXU Energy Trading**

# Strategic Imperatives for 2001

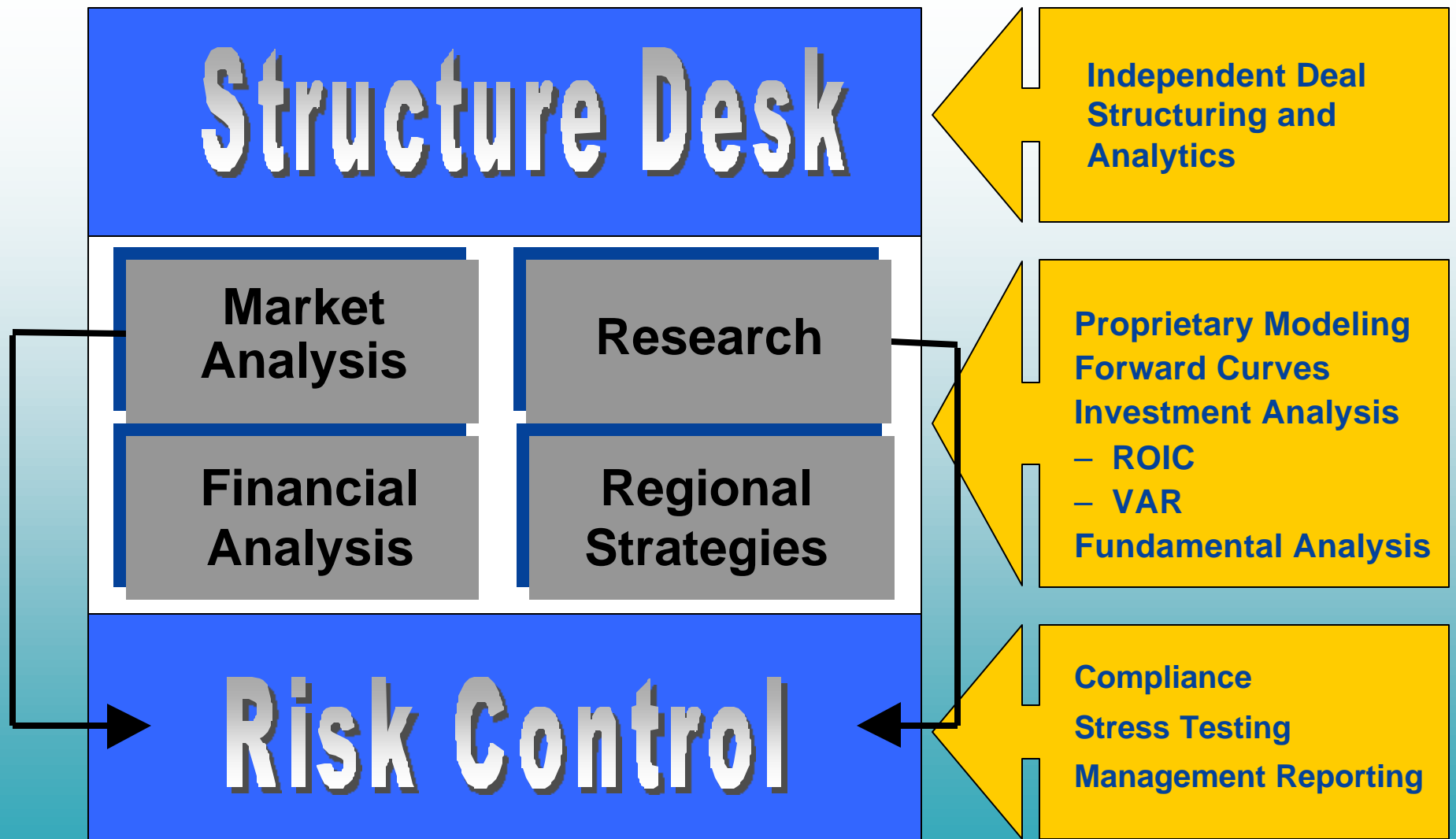


- **Capabilities-rich organization**
- **Ready for ERCOT opening**
- **ERCOT portfolio strategy and execution**
- **Expanding into two non-ERCOT regions**

- **People**
  - **Origination**
  - **Middle Office - Analytics and Structuring**
  - **Capital Management**
  - **Asset Management**
  - **Trading**

- **Systems**
  - **Sophisticated, state-of-the-art**
  - **Generation optimization**
  - **Retail / Load optimization**
  - **Deal capture and decision support**

# Capabilities-Rich: Middle Office



# Ready for ERCOT Opening



- **Market Compliance**
  - Transaction protocols
- **Beyond Market Compliance**
  - Commercial protocols
  - Product development
- **Skills Integration**
  - Generation scheduling and dispatch
  - Customer segment strategies
  - Market-making

# Creating Opportunity in ERCOT



- **Diverse operating portfolio with strong cash flow, fuel diversity, and significant optionality**
  - **Gas-fired plants on the margin**
  - **Good market structure**
  - **Attractive transmission zones**
- **Strong retail position**
  - **High load growth**
  - **Attractive downstream value capture**

# ERCOT Portfolio in 2000



## Upstream

TXU Generation  
97 TWH

Lignite Consumed  
26.4 M tons

Western Coal Consumed  
4.8 M tons

Fuel Oil Consumed  
1.06 M barrels

Gas Storage Capacity -  
Working TUFCO 14.0 Bcf  
LSP 47.4 Bcf

Transport Capacity - Peak Day  
TUFCO 1.8 Bcf/Day  
LSP 3.0 Bcf/Day

Emissions  
Management

Congestion Management

Power Purchases TXU-E 15  
TWH Trading 22 TWH

Gas Purchases Elec 391 Bcf  
Trading 1,242 Bcf

Nuclear Purchases 193 Bcf  
Equivalent

## Portfolio Optimization

**ERCOT  
Trading  
Platform**

## Downstream

**Electric Sales  
TXU-E 107 TWH\*  
Trading 22 TWH**

**Gas Sales  
LDC 138 Bcf  
Trading 1,242 Bcf**

**\* Sales by Category:**

Residential	38 TWH
Commercial	33 TWH
Industrial	26 TWH
Govt & Muni	7 TWH
Other Utilities	3 TWH

# Largest Power Marketers

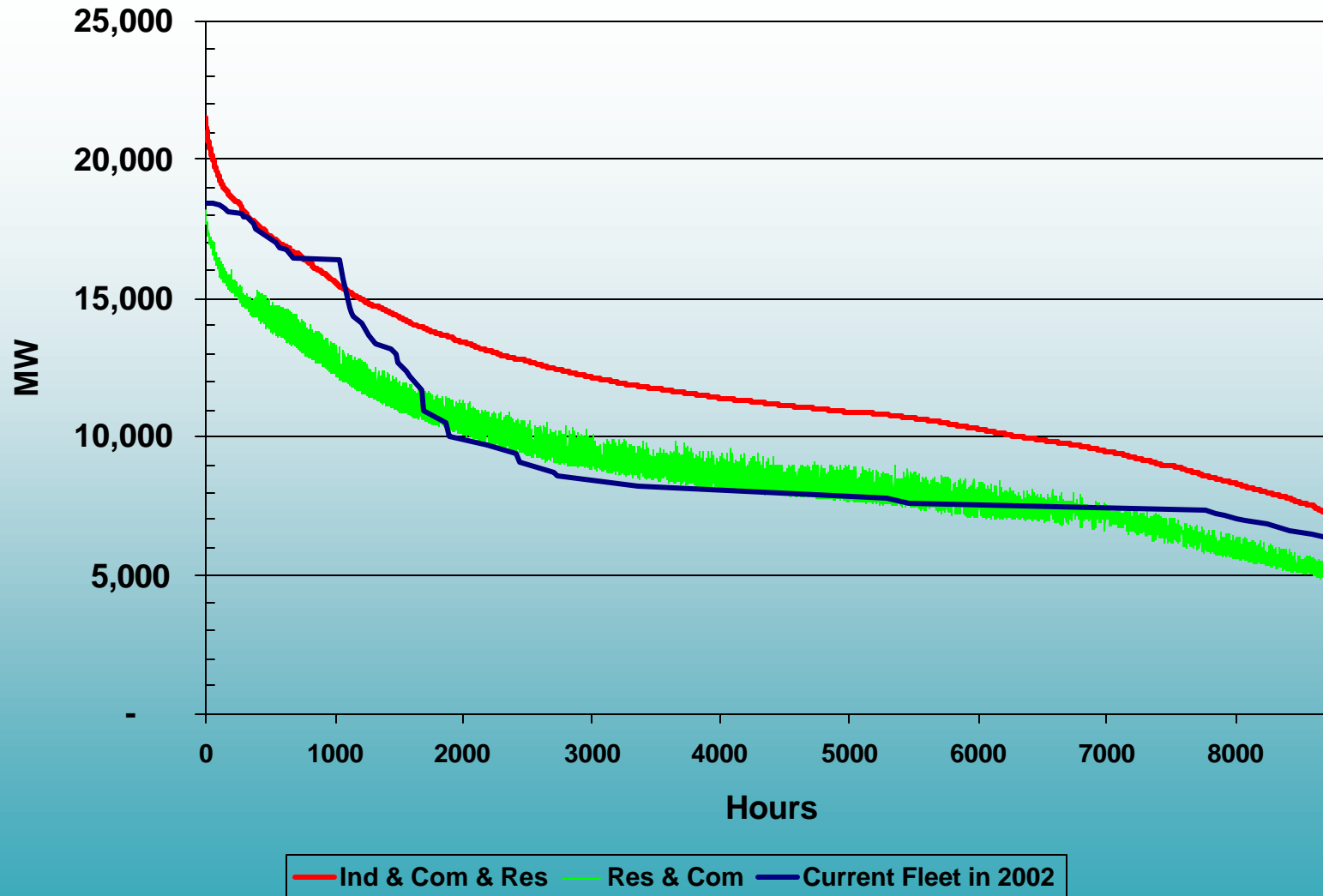


**2000 MW**  
**(in millions)**

<b>Enron</b>	<b>590.2</b>
<b>AEP</b>	<b>401.3</b>
<b>TXU</b>	<b>301.6</b>
<b>PG&amp;E</b>	<b>282.6</b>
<b>Duke</b>	<b>276.2</b>
<b>Reliant</b>	<b>204.3</b>

Source: Platt Power Markets Week

# ERCOT Portfolio Positioning



# Northeast Portfolio in 2000



## Upstream

Gas Storage  
23 Bcf

Gas Transport  
313,000 Dt/D

Other  
Contracts

## Portfolio Optimization

East Trading  
Platform

## Downstream

Retail Upstate NY  
100,000 Dt/D

Retail East Coast  
60,000 Dt/D

ANP Fuel Mgmt  
90,000 Dt/D

Wholesale  
Customers  
500,000 Dt/D

2000 Gross Margin = \$24 Million Energy Trading + \$11 Million Energy Services

# Conclusion



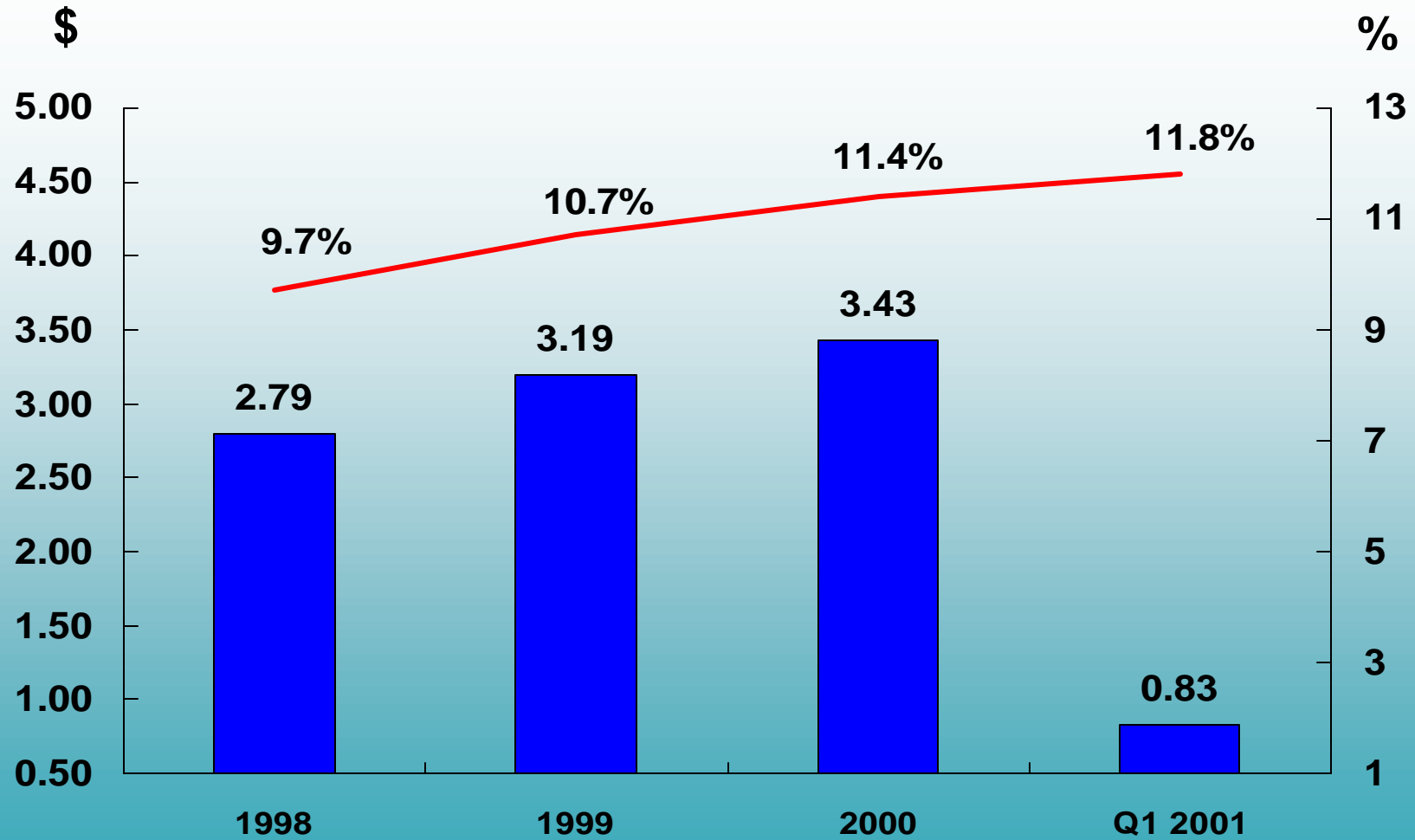
- **Strong and expanding skills**
- **Robust risk management infrastructure**
- **Ready for market opening**
- **Growing in two non-ERCOT regions**



# **Financial Update**

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

# Financial Performance



\* Excludes non recurring items

■ EPS\* — ROE

# Highlights

## March 31, 2001



- **Quarter Reported EPS up 7% to \$0.76**
- **Quarter Operating EPS of \$0.83**
- **Enhanced performance driven by US Electric and US Gas Segments**
- **Margins growing in US Energy Segment**
- **Strong performance by Europe and Australia Segments**
- **On track for 7-9% EPS growth for 2001**

# Enhancing Shareholder Value



- **Strengthen credit**
- **Deliver growth from existing businesses**
- **Create opportunity with Texas restructuring**
- **Diversify US assets outside of Texas**
- **Structural separation of merchant energy and network business**
- **Capture substantial value from global merchant energy business**

# Q&A Session