



# **TXU Quarterly Analyst Meeting**

**May 8 - 9, 2003**

# Investor Relations Calendar



<b>Analyst Meetings in New York and California</b>	<b>May 8-9</b>
<b>Berenson/Williams Capital Seminar, Nevada</b>	<b>May 13-15</b>
<b>10-Q Anticipated Filing</b>	<b>May 14</b>
<b>TXU Annual Shareholder Meeting</b>	<b>May 16</b>
<b>EEl Annual Finance Meeting, New York</b>	<b>May 20-21</b>
<b>Goldman Sachs Power Conference, Nevada</b>	<b>May 27-28</b>
<b>NAIC Regional Retail Conference, Texas</b>	<b>May 31</b>
<b>Deutsche Bank Power Conference, New York</b>	<b>June 9-11</b>
<b>Anticipated Second Quarter Earnings Release</b>	<b>July 31</b>
<b>Post Earnings Analyst Meeting, New York</b>	<b>Early August</b>

# 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. 2002 Form 10-K and 2002 10-Q'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; capital markets conditions; competition; rating agency actions; among others, that could cause the results of TXU Corp. to differ materially from those projected in such forward-looking statements.*

# Agenda



- **Erle Nye**                      **Opening Comments**
- **Tom Baker**                    **North America Energy Delivery**
- **Tom Baker**                    **Legislative/Regulatory Update**
- **Brian Dickie**                 **North America Energy**
- **Carl Bracy**                    **North America Retail-Mass Market**
- **Dan Farell**                    **Financials**
- **Erle Nye**                        **Conclusion**

- **Results exhibit that the business has stabilized**
- **First quarter earnings from continuing operations exceeded target**
- **Operational achievements in the business:**
  - **Successfully accessed capital markets at TXU Energy**
  - **TXU repaid all cash borrowings from the North America credit facilities and replaced expiring credit facilities**
  - **Implemented management changes to streamline the organization and reduce costs**
  - **Received regulatory approval on price-to-beat fuel increase and omnibus settlement plan**
  - **Recognized for environmental efforts, safety and supplier diversity**

# Highlights



- **1Q 2003 earnings from continuing operations: \$101 million, \$0.30 per share (diluted), exceeds target of approximately \$0.20 per share**
- **1Q 2003 net income available to common stock: \$40 million, \$0.14 per share (diluted)**
- **Full year 2003 guidance for earnings from continuing operations remains at \$1.95 to \$2.05 per share with focus on further efficiency and excellence in core operations, debt reduction, and strengthening credit**
- **2Q 2003 guidance: \$0.35 per share range**

- **Strengthen balance sheet and enhance credit**
- **Deliver on the 2003 plan**
- **Achieve major, sustainable cost reductions**
- **Aggressively defend and build on leadership position in Texas and Australia**

# North America Energy Delivery

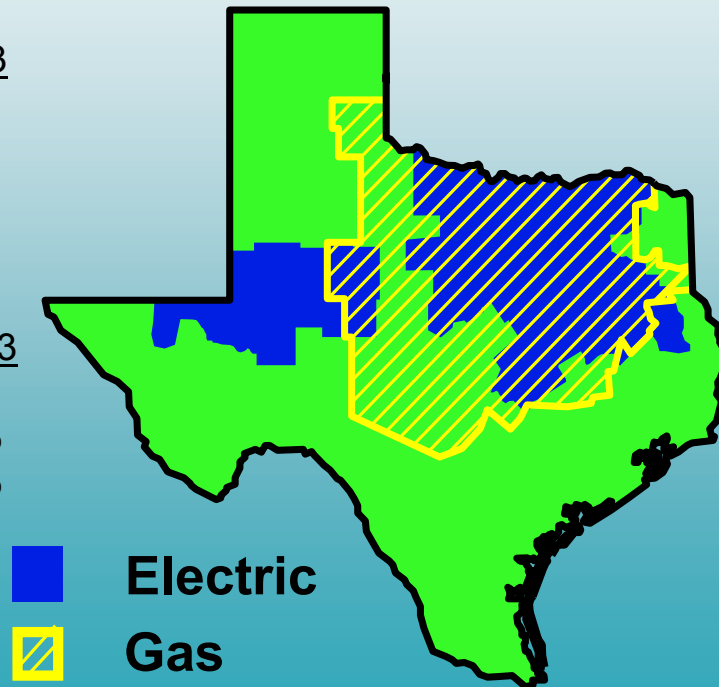
# North America Energy Delivery



- Contains the electricity transmission and distribution business of Oncor Electric Delivery Company and the natural gas pipeline and distribution business of TXU Gas Company, both of which are subject to regulation by Texas authorities.
- Delivered \$110 million of net income in the first quarter of 2003; 9% increase over 2002
  - Results reflect customer growth and colder weather in the North Texas area
  - Solid improvement in net income contribution from gas business
  - Electric delivery results declined slightly, primarily as a result of increased interest expense as a result of more permanent financing and reduced reliance on bank debt

Capital – Electric		3/31/03
Debt	\$4.42B	62%
Equity	<u>2.66B</u>	38%
Total	\$7.08B	

Capital - Gas		3/31/03
Debt	\$.61B	37%
Preferred	.22B	14%
Equity	<u>.80B</u>	49%
Total	\$1.63B	



## Growth drivers:

- Growing/ diverse service area
- Reasonable regulatory environment
- Growing electric rate base
- Projected electricity consumption growth of 3.5%
- Improving gas regulated return

# 2003 Priorities



- **Deliver financial results**
- **Focus on growth in service area**
- **Reduce costs to offset upward cost pressures**
- **Improve gas business profitability through system-wide rate case**
- **Continue to provide safe and reliable energy delivery service**

# Regulatory/Legislative Update

## Session Drawing to Close

- January 14: Session opens
- May 24: Last day for House committees to report Senate bills and joint resolutions to the full House
- May 30: Last day for Senate committees to report all bills to the full Senate
- June 1: Last day for House and Senate to adopt conference committee reports
- June 2: Last day of session

## Outlook for Interim

- Special session on taxes and school finance, fall of '03 or spring '04
- Possible delay of PUC Sunset
- Possible gas reliability infrastructure bill

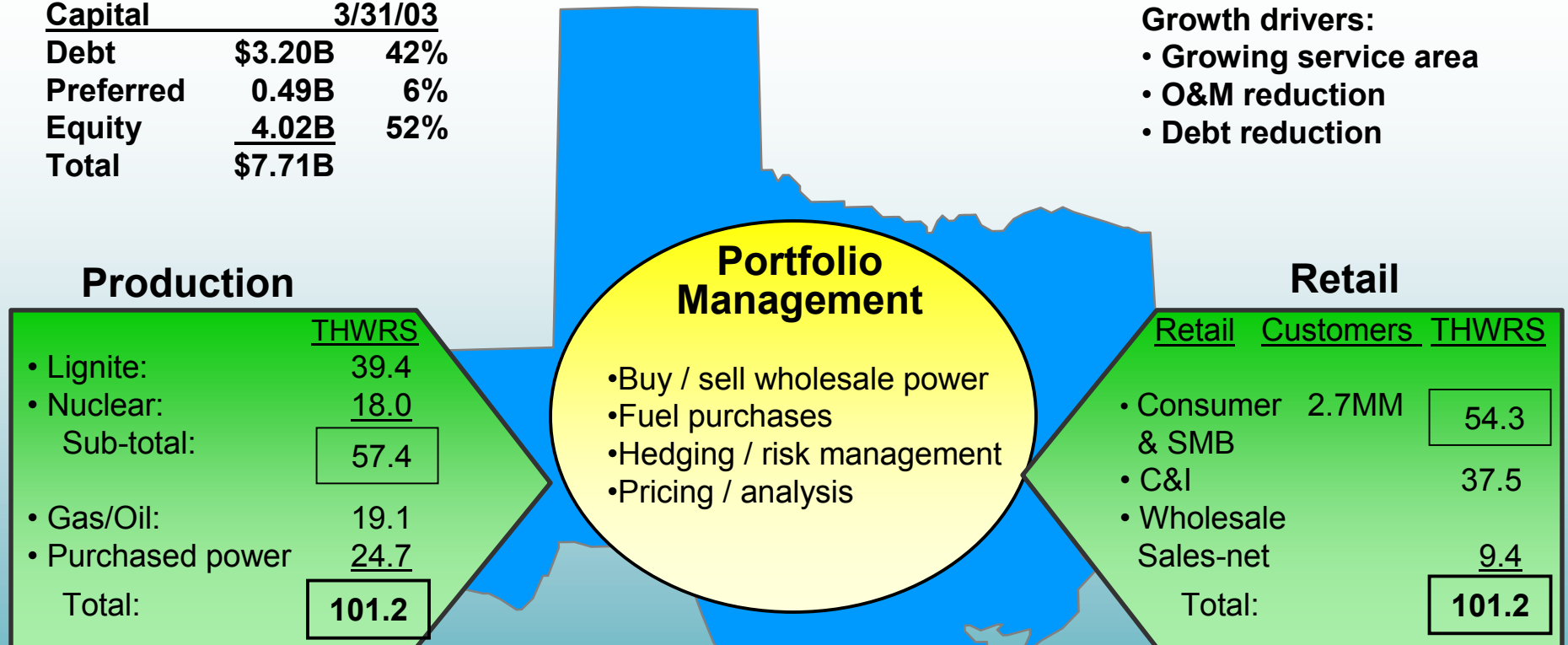
# North America Energy

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Capital	3/31/03	
Debt	\$3.20B	42%
Preferred	0.49B	6%
Equity	<u>4.02B</u>	52%
Total	\$7.71B	

- Growth drivers:**
- Growing service area
  - O&M reduction
  - Debt reduction



## Production

	THWRS
• Lignite:	39.4
• Nuclear:	<u>18.0</u>
Sub-total:	<b>57.4</b>
• Gas/Oil:	19.1
• Purchased power	<u>24.7</u>
Total:	<b>101.2</b>

## Portfolio Management

- Buy / sell wholesale power
- Fuel purchases
- Hedging / risk management
- Pricing / analysis

## Retail

	Retail Customers	THWRS
• Consumer & SMB	2.7MM	<b>54.3</b>
• C&I		37.5
• Wholesale Sales-net		<u>9.4</u>
Total:		<b>101.2</b>

- Low cost producer
- Flexible
- Well-located

- Enhanced margins
- Lower risk

- Leading competitor
- Realistic view of competition

**Balanced, Integrated, Synergistic**

## 2003: “Texas First”



- **Protect and build on our leadership position in Texas**
- **Re-scale cost base**
- **Focus on customers and operational excellence**
- **Optimize the Texas portfolio**

# Q1 Performance



- **Financial results ahead of plan**
- **Retail market performance at high end of expectations**
- **Price-to-beat adjustment implemented on March 6**
- **Cost reductions, business exits and bad debt programs on track**
- **Portfolio well-positioned against recent and prospective market movements**

# Focus For Remainder of 2003



- **Deliver against plan and execute “Texas First” programs**
- **High priority on:**
  - **Large C&I segment**
  - **Integration of marketing, customer service and credit management initiatives**

# Retail – Mass Market

# Key Market Conditions Going into 2003



- **TXU maintained market leadership while new Competitive Energy providers sourced their growth from other incumbent providers (Reliant, CP&L and WTU).**
- **TXU built Brand Awareness and Customer Count to leadership levels in new markets, while maintaining strong Brand Image Leadership in existing markets.**
- **TXU built a network of sales channel partners who can be leveraged for future growth in new markets.**

# ERCOT Residential Competitive Marketplace



	Beginning 2002 % of Customers	End 2002 Customer Count Change (‘000)
TXU	48%	(<1)
Reliant/CP&L/WTU/TNMP	52%	(129)
Total Incumbent	100%	(130)
<i>Total Non-Incumbent</i>		+252

**Summary: TXU began the year with 48% of the incumbent customers. Cost effective retention programs and new market acquisitions protected TXU’s leadership position.**

# Brand Image After One Year of Competition



	North Texas			New Markets
	TXU	Reliant	Green Mountain	TXU
Base: Aware of Company	%	%	%	%
Have a Reputation of Reliability	83	10	9	21
Are Responsive	77	8	7	18
Help Customers Control their Home Energy	75	16	14	25
Cares about Customers	71	14	11	30
Are Trustworthy	64	5	7	23
Helps Customers Keep Bills Down	62	12	11	19

Source: Communication Tracker Study - December, 2002

# Strategic Marketing Approach



## Brand Positioning

TXU puts you in control of how you use and pay for energy, so you save more.

TXU built brand awareness through a testimonial campaign utilizing real Texans who chose TXU. Focus is on the added choices and control you get with TXU.

## Products, Services and Programs

TXU provides the customer with customized billing options and energy efficiency tools so they can save money and pay the way they want to pay.

Several new products, services and programs were introduced in 2002, with more planned for 2003.

## Sales Channels

TXU will intercept the customer at multiple and naturally occurring decision points to keep cost per acquired customer at profitable levels.

TXU leverages several indirect channel partners and targeted direct marketing programs in new markets.

# New Tools Used in Competitive Market Management



## **Monthly Customer and Competitor Tracking**

To understand changing customer image, intent to switch, and competitive spending levels.

## **Message Testing/Research**

To evaluate messages and activities before introduction.

## **In-Market Testing**

To ensure market messages and activities deliver their intended result.

## **Market Management**

Program funding subject to rigorous business case development.

Management of each initiative to ensure in-market execution is faithful to what was tested.

# Mass Market 1Q Customer Count Results



	End Customer Change ('000)	% of Total
<b>In-Territory Net</b>	<b>(24.0)</b>	<b>(1%)</b>
<b>Gains</b>	<b>+33.4</b>	
<b>Losses</b>	<b>(57.5)</b>	
<b>New-Territory Net</b>	<b>14.2</b>	<b>+14%</b>
<b>Customer Gains</b>	<b>+24.8</b>	
<b>Customer Losses</b>	<b>(10.6)</b>	
<b>Total Net</b>	<b>(9.8)</b>	<b>(.4%)</b>

Summary: Continued investment in cost effective retention programs in-territory and targeted acquisition in new markets delivered results ahead of plan in 1Q.

# Summary – Mass Markets



- **2002 was a successful competitive year for TXU Energy Mass Markets.**
- **In 2003, we are focused on retention of our customer base and targeted acquisition in new territories to maintain TXU Energy's leadership position.**

# Financial Overview

- **Maximize free cash flow**
  - Reduce operating and SG&A expenses
  - Deliver gross margin from operations
  - Minimize capital expenditure and working capital
- **Strengthen credit**
- **Grow earnings**
  - Organic growth
  - Debt reduction

# 2003 Cost Savings (\$ million – pre tax)



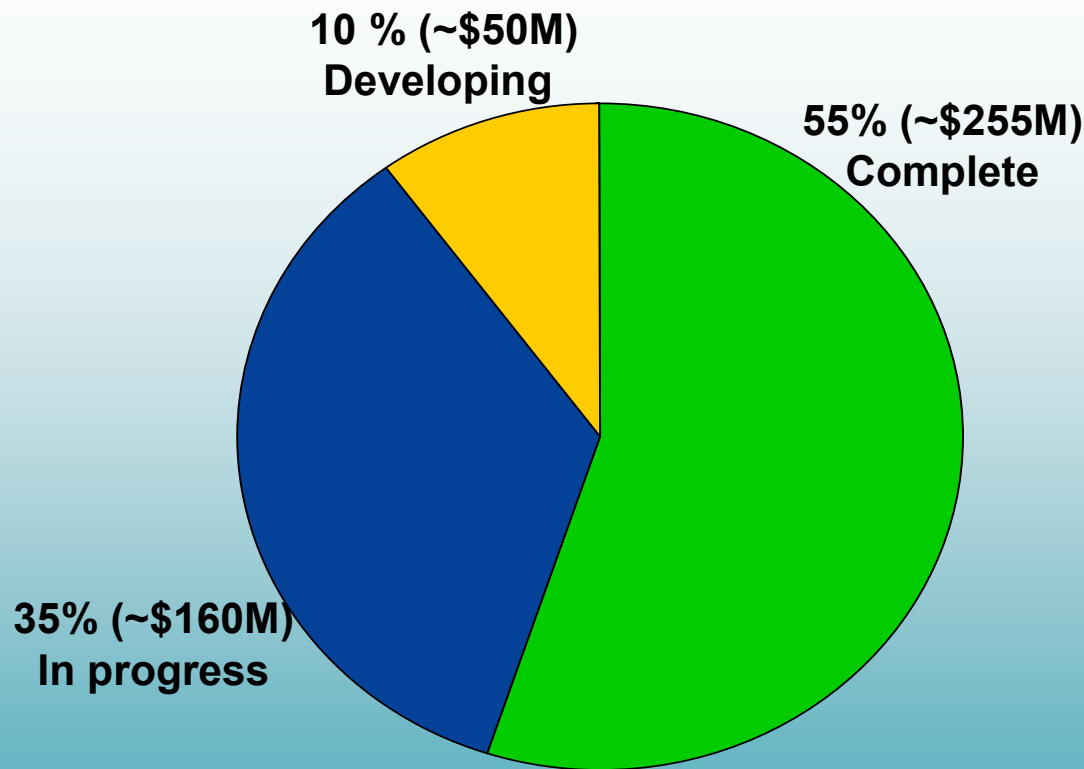
	<u>Energy</u>	<u>Energy Delivery</u>	<u>Total</u>
Total upward pressures	(104)	(106)	(210)
<u>2002 Non-Recurring:</u>			
Write offs & production outage	61	-	61
ERCOT transition	40	-	40
Exit businesses	42	-	42
Non-ERCOT bad debt	<u>33</u>	-	<u>33</u>
Total non-recurring	176	-	176
<u>2003 Initiatives:</u>			
Salary and benefits	15	19	34
Internal business consolidation	49	40	89
Non-payroll	52	41	93
ERCOT bad debt	<u>73</u>	=	<u>73</u>
Total initiatives	<u>189</u>	<u>100</u>	<u>289</u>
Net savings	261	(6)	255

As presented on February 10, 2003

# 2003 Cost Savings



**Reductions: ~ \$465 million**



- On course to meet target
- Accountability assigned
- Tracking programs in place
- 30% reduction in executives
- 1,100+ employee reductions
- Hiring and salaries frozen
- Bad debt initiatives in place
- Executive approval required for discretionary spending

**Pressures: ~ \$210 million**

**Targeted net savings: \$250 million**

# Indicative Net Income (\$ million)



	<b>2003 <u>Plan</u></b>
<b>Energy Delivery</b>	<b>230 – 240</b>
<b>Energy</b>	<b>625 – 655</b>
<b>Australia</b>	<b>65</b>
<b>Corp. &amp; Other</b>	<b>(230)</b>
<b>Total</b>	<b>690 – 730</b>
<b>Avg. Shares</b>	<b>322.5</b>
<b>EPS</b>	<b>\$2.15 - \$2.25</b>
<b>Diluted Avg. Shares</b>	<b>379.5</b>
<b>Diluted EPS</b>	<b>\$1.95 - \$2.05</b>

Continuing operations before changes in accounting principles

# Indicative Cash Flow



	(\$ million)	
	<u>2003</u>	<u>2004</u>
Cash flow from operations	2,278*	2,024
Securitization	500	800
Capital expenditures	(1,133)	(1,052)
Dividend – common & preferred	<u>(183)</u>	<u>(185)</u>
Cash available to pay down debt	1,462	1,587

\* Includes \$615 million IRS refund

# Conclusion

- **Strengthen balance sheet and enhance credit**
- **Deliver on the 2003 plan**
- **Achieve major, sustainable cost reductions**
- **Aggressively defend and build on leadership position in Texas and Australia**

# Q&A