

Lehman Brothers Annual CEO Energy/Power Conference



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Chief Executive Officer**

September 8, 2004

Safe Harbor Statement & Regulation G

This presentation contains forward-looking statements, including information provided at the May 18th investor conference, which are subject to various risks and uncertainties. Discussion of risks and uncertainties 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 risks and uncertainties set forth in the company's SEC filings, the forward-looking statements in this presentation could be affected by the ability of the purchaser to obtain all necessary governmental and other approvals and consents for the acquisition of TXU Gas and the ability of the company to implement the initiatives that are part of its restructuring, operational improvement and cost reduction program, and the terms under which the company executes those transactions or initiatives.

Regulation G

This presentation includes certain non-GAAP financial measures. A reconciliation of these measures to the most directly comparable GAAP measure is included in the appendix of the printed version of the slides and the version included on the company's website at www.txucorp.com under Investor Resources/Presentations.

Today's Agenda

Business Model

- **Key Objectives**
- **Business Positioning/Strategy**

Performance Improvement

- **Phases of Restructuring**
- **Size of Improvement Opportunity**
- **Examples**

Conclusions

- **Key Messages**

TXU Is Focused On Achieving A Clear Set Of Objectives...



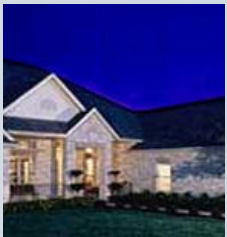
TXU Electric Delivery

- Achieve industry-leading safety performance
- Achieve top decile reliability
- Achieve top decile cost performance
- Earn allowable return



TXU Power

- Achieve top decile production performance
- Achieve top decile cost performance
- Develop high-performance culture



TXU Energy

- Provide exceptional customer service
- Retain and grow profitable customer base
- Achieve top decile purchased power performance



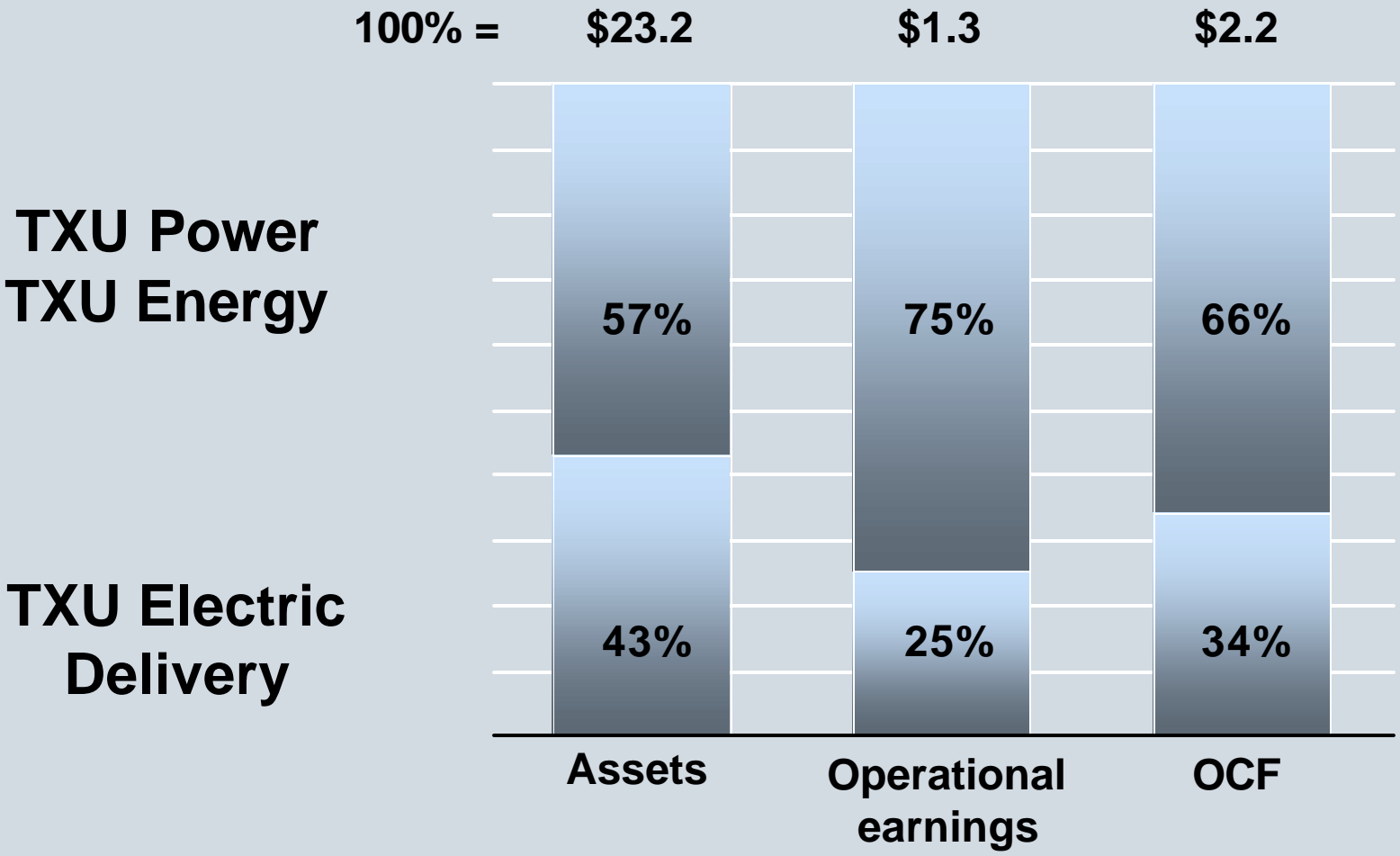
Corporate Center

- Profitably allocate capital and risk
- Enforce clear risk guidelines and controls
- Build high-performance management systems and culture

Capitalize on benefits of integrated business model

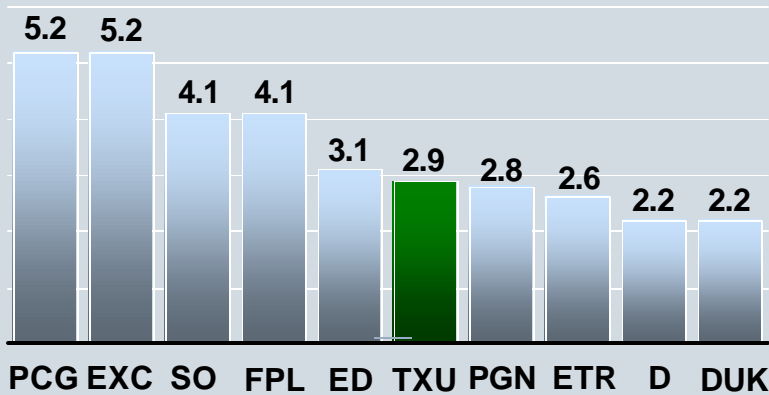
... Across Three Advantaged Core Businesses

Size and shape of TXU's businesses
05E; \$ billions and percent



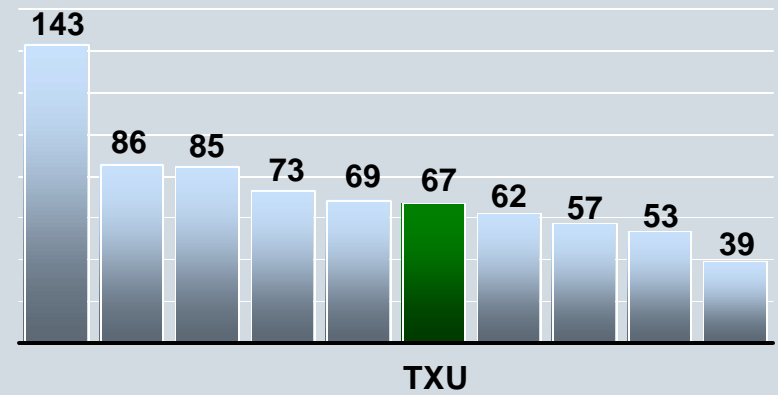
TXU Electric Delivery's Strong Competitive Position...

Large customer base
03; Millions of customers



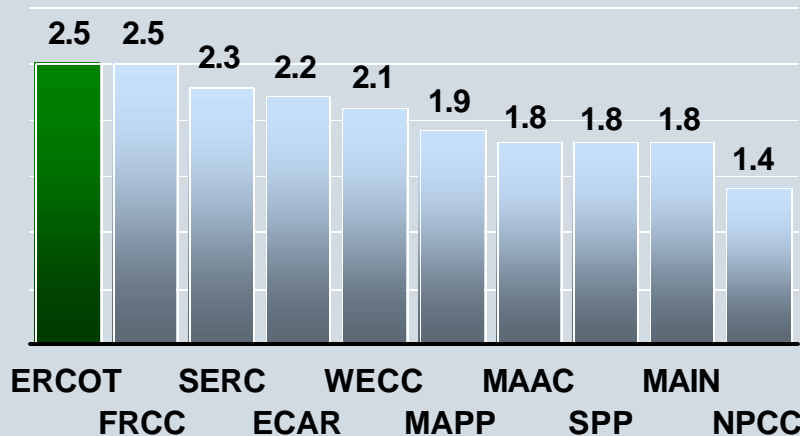
Source: FERC

Large infrastructure
03; Thousands of miles of primary distribution lines



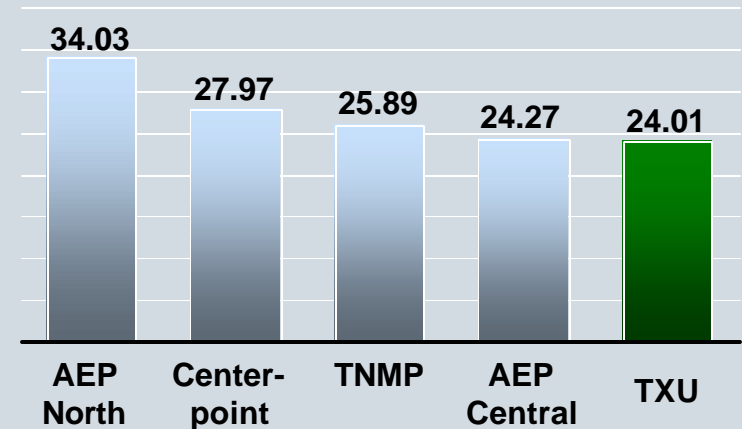
Source: Proprietary benchmarking study

High growth
03-12E; Percent annual demand growth



Source: NERC

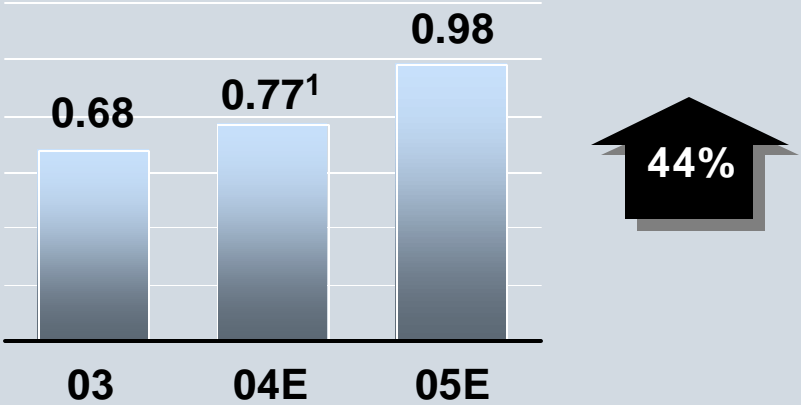
Lowest rates in Texas
04; \$ of monthly wire charges per customer



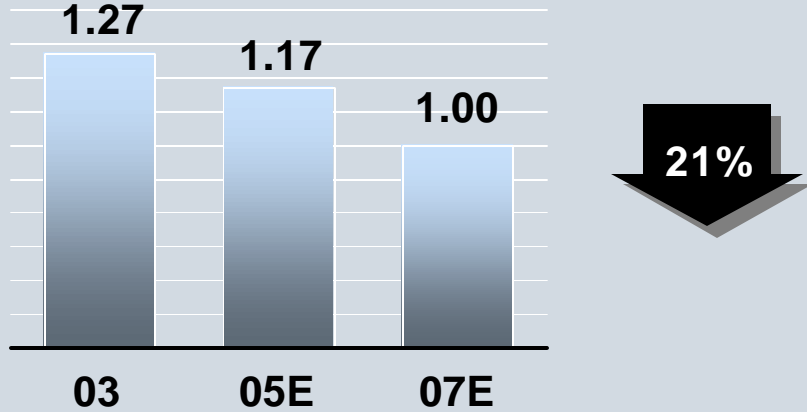
Source: PUC March 04

...Will Help Drive High Performance

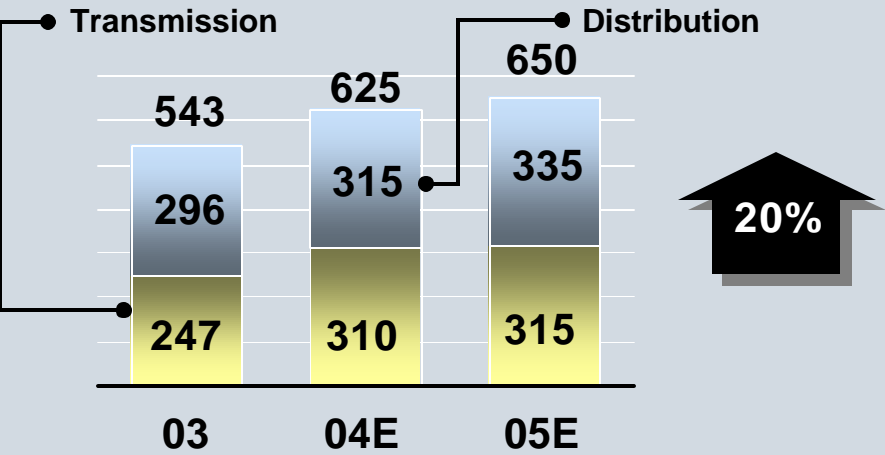
Operational EPS
03-05; \$ per share



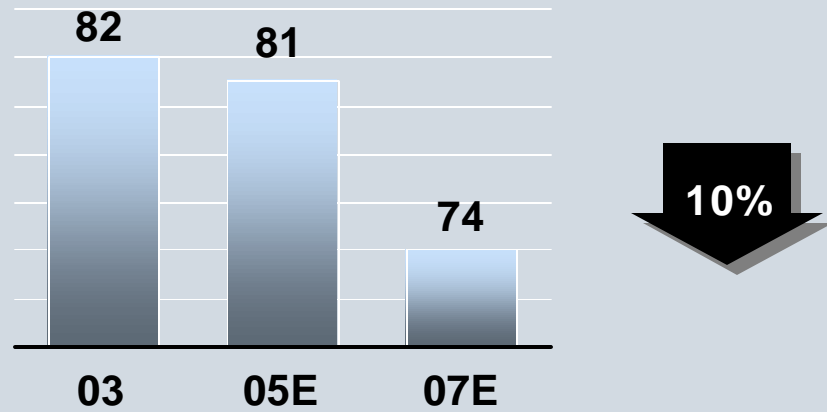
SAIFI (non-storm)
03-07; Incidents per year (5 year average)



Total CAPEX
03-05; \$ millions



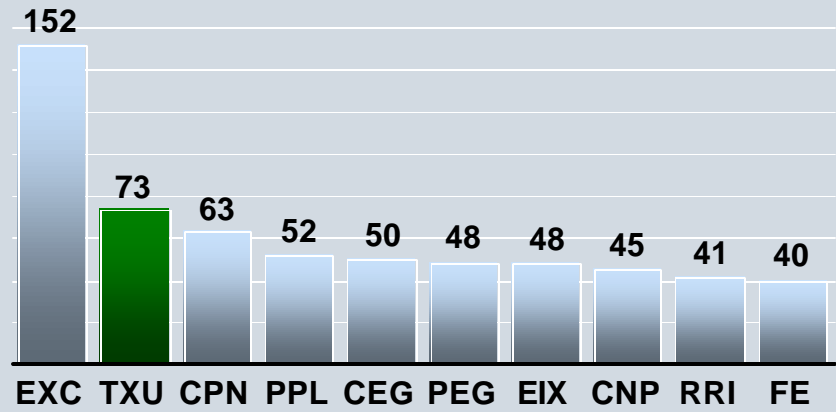
SAIDI (non-storm)
03-07; Minutes per year (5 year average)



¹ Updated for second quarter 10-Q

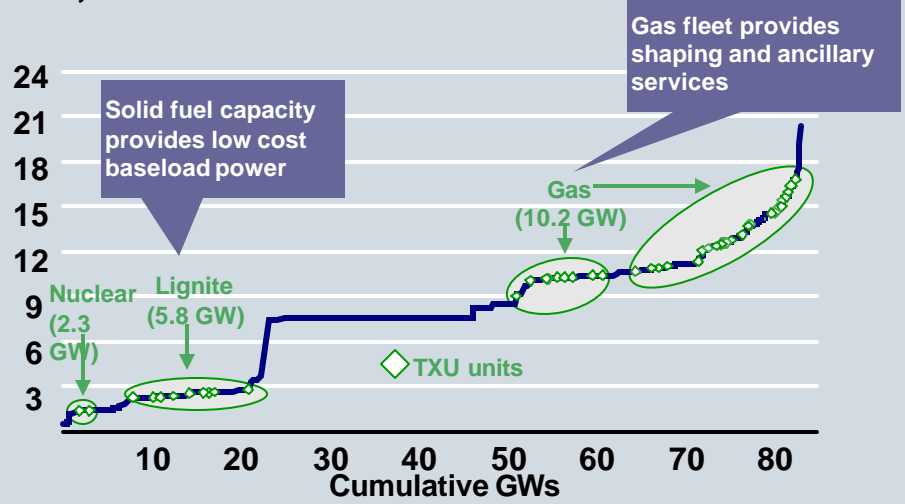
TXU Power: Well Mixed; Scaled Position; Growth Market...

Large portfolio
03; TWh of deregulated generation

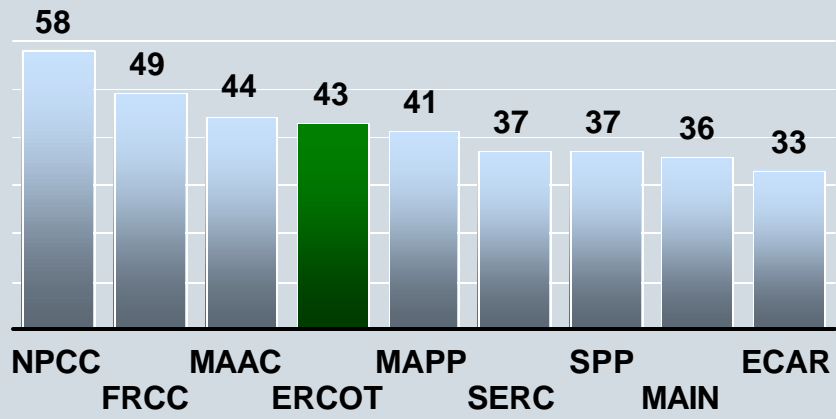


Source: Platts

ERCOT full load average implied heat rate
04; MMBtu/MWh

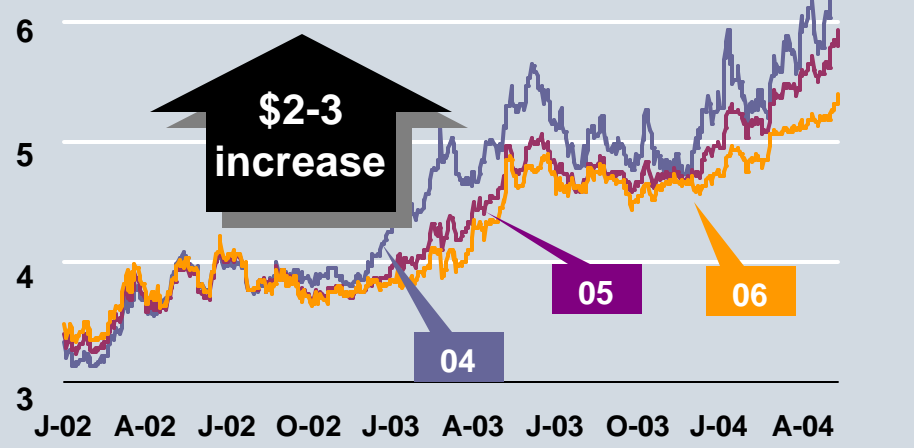


Robust wholesale prices
04; \$ per MWh for 24X7 wholesale prices



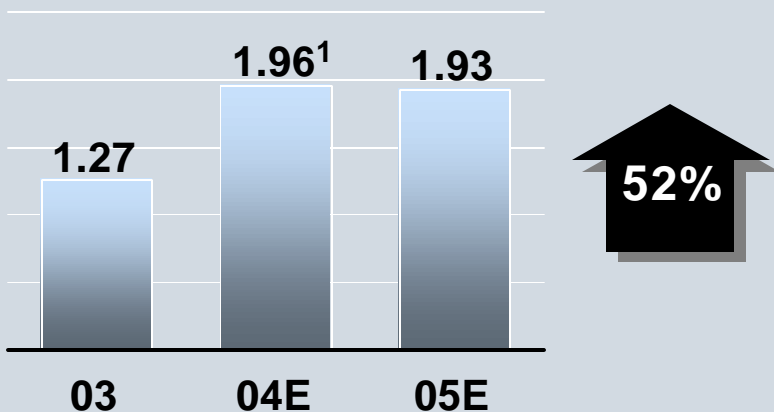
Source: Platts

NYMEX Henry Hub calendar strip gas prices
02-04; \$/MMBtu

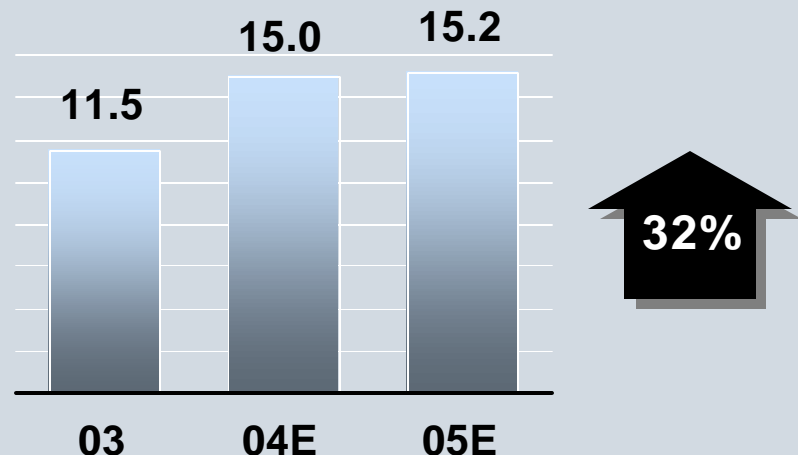


...That Will Help Drive Sustainable Improvements

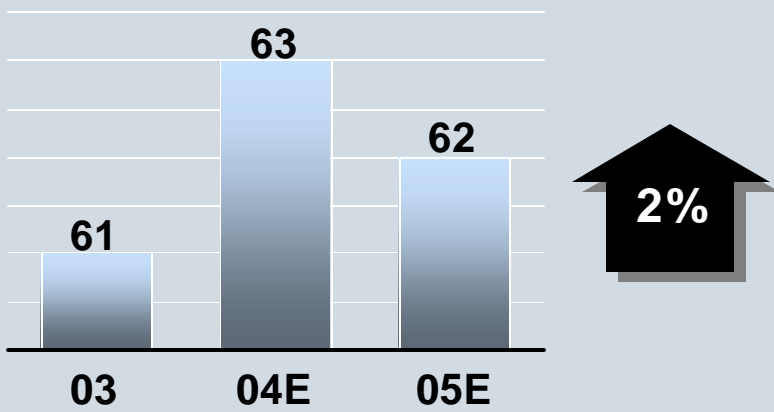
Operational EPS
03-05; \$ per share



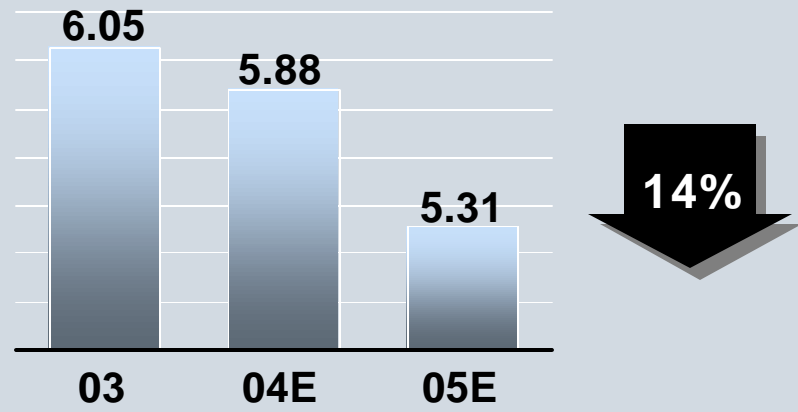
ROIC
03-05; Percent



Baseload production volumes
03-05²; TWh



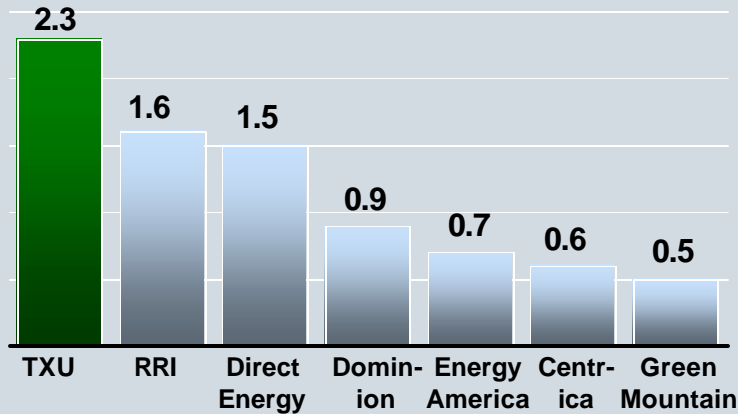
Baseload operating costs (excluding outages)
03-05; \$ per MWh



¹ Updated for second quarter 10-Q
² Includes dual unit nuclear outage in 05

TXU Energy: Largest Competitive Retailer In A Growth Market...

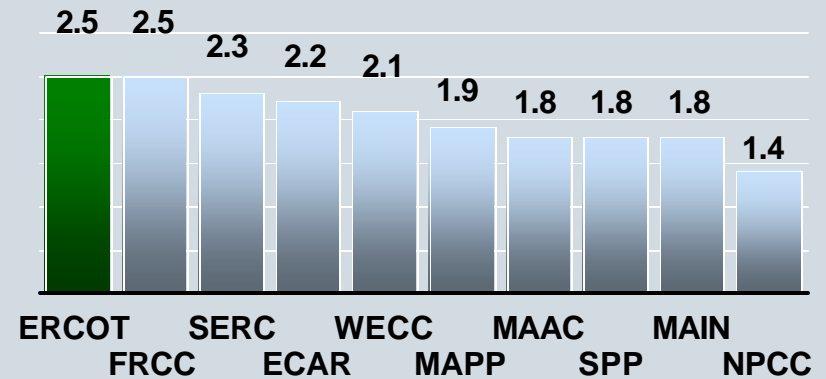
Large competitive customer base
03; Millions of total customers



Source: Platts

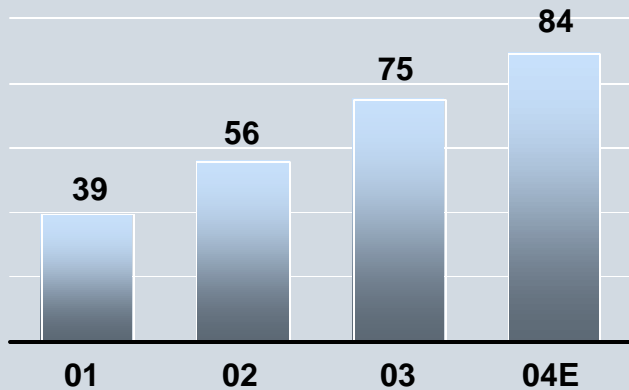
High growth

03-12E; Percent annual demand growth



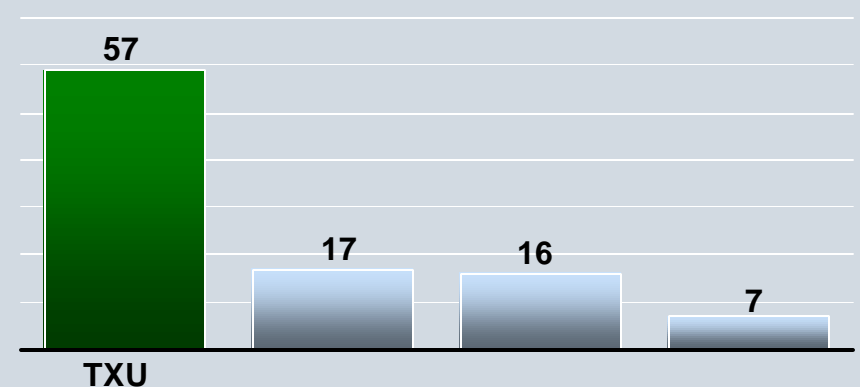
Source: NERC

Highly competitive market
02-04; Number of certified ERCOT retailers



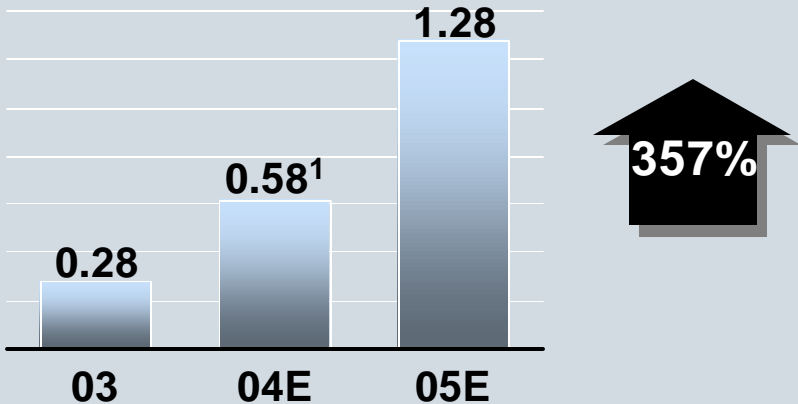
Source: PUC

North Texas reputation for reliability
July 04; Percent

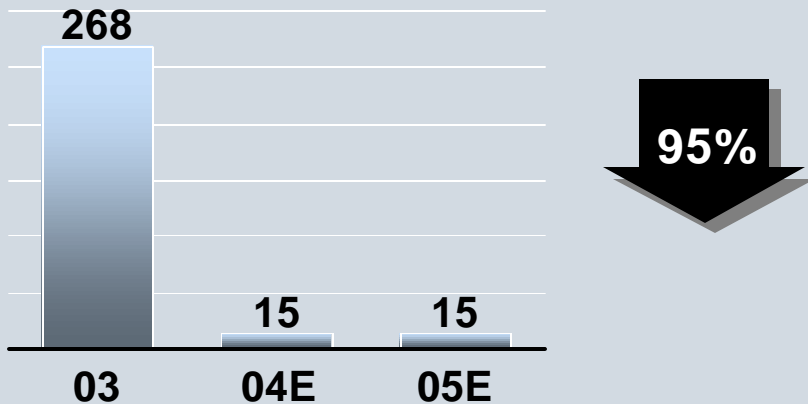


...Resulting In Strong Performance

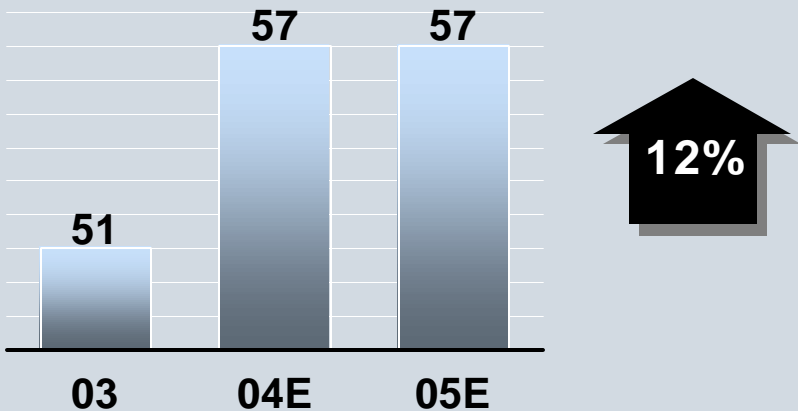
Operational EPS
03-05; \$ per share



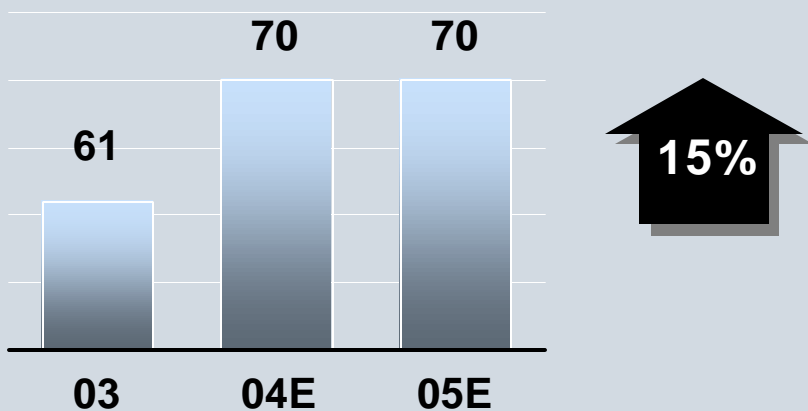
Average speed of answer
03-05; Seconds



Customer first call resolution
03-05; Percent



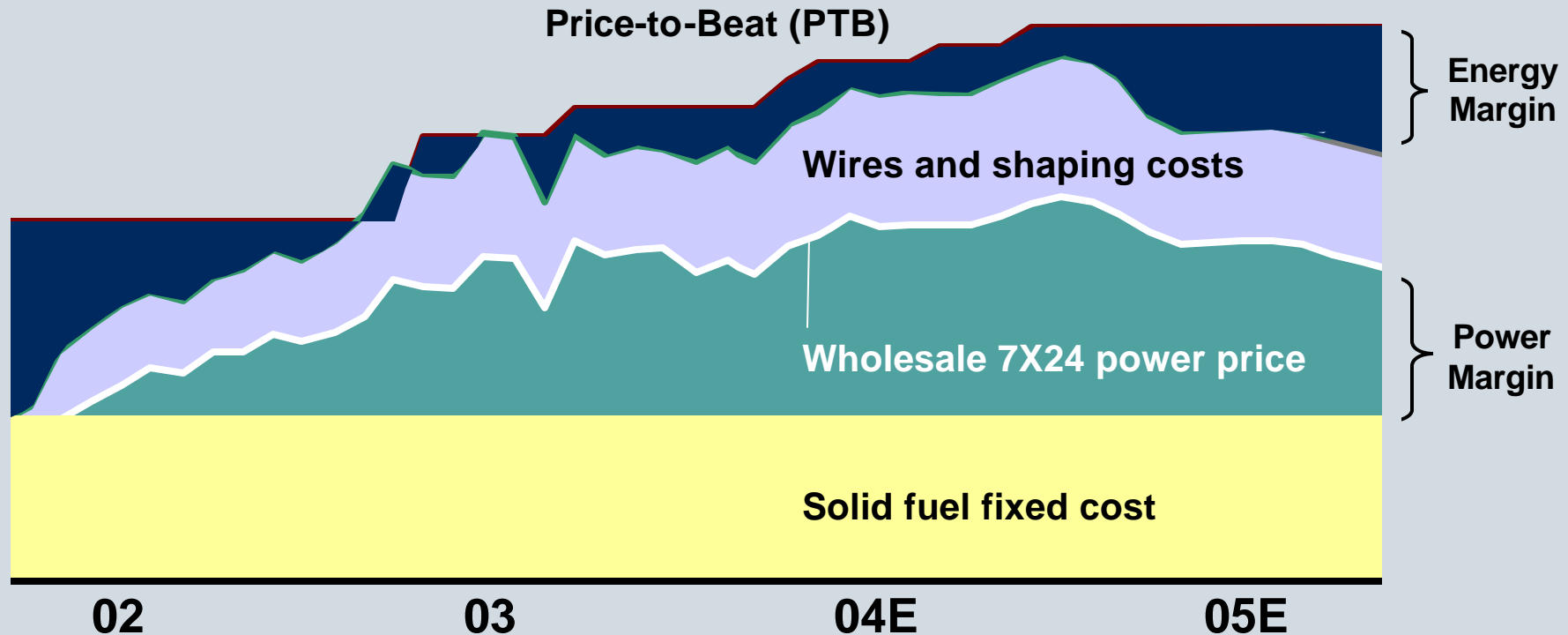
Customer satisfaction index
03-05; Percent



¹ Updated for second quarter earnings release

Integration Of TXU Power And TXU Energy Reduces Volatility And Provides A Natural Hedge...

Economics of TXU Energy (retail) and TXU Power (generation)
02-05; \$/MWh (illustrative)



TXU Energy and TXU Power margins are counter-cyclical:

- 1. As gas prices rise and Power margins expand, retail margins fall until the retail price (PTB) is raised*
- 2. As gas prices fall and Power margins contract, retail margins expand*

...As Illustrated By TXU's Hedge Against Falling Natural Gas Prices...

	Expected Gas		Low Gas Price ¹
	Plan change in retail load	Plan change in retail load	Higher churn for retail load
Cal 2005 Forward Gas Price \$/MMBtu	6.18 ¹	4.50	4.50
Wholesale Power Price² \$/MWh	47.59	34.65	34.65
Change in Retail Load³ Percent	(4%)	(4%)	(10%)
EPS Variance to 05 Guidance \$/share	0.24	0.28	0.08

TXU's integrated business is currently balanced relative to natural gas prices in 05; the combined generation and retail business creates a natural hedge

¹ 2005 NYMEX Average Gas Forward Curve as of September 2, 2004

² 24X7 market heat rate = 7.7 MMBtu/MWh

³ Percent change in price-to-beat customer load volume in North Texas and residential South Texas customers

...And Its Ability To Capture Gas Price Upside

	Expected Gas	High Gas Price ⁴	
	Plan change in retail load	Plan change in retail load	Higher churn for retail load
Cal 2005 Forward Gas Price \$/MMBtu	6.18 ¹	7.10	7.10
Wholesale Power Price² \$/MWh	47.59	54.67	54.67
Change in Retail Load³ Percent	(4%)	(4%)	(10%)
EPS Variance to 05 Guidance \$/share	0.24	0.57	0.52

The integrated business enables TXU to maintain sustainable retail margins even during natural gas price increases

¹ 2005 NYMEX Average Gas Forward Curve as of September 2, 2004

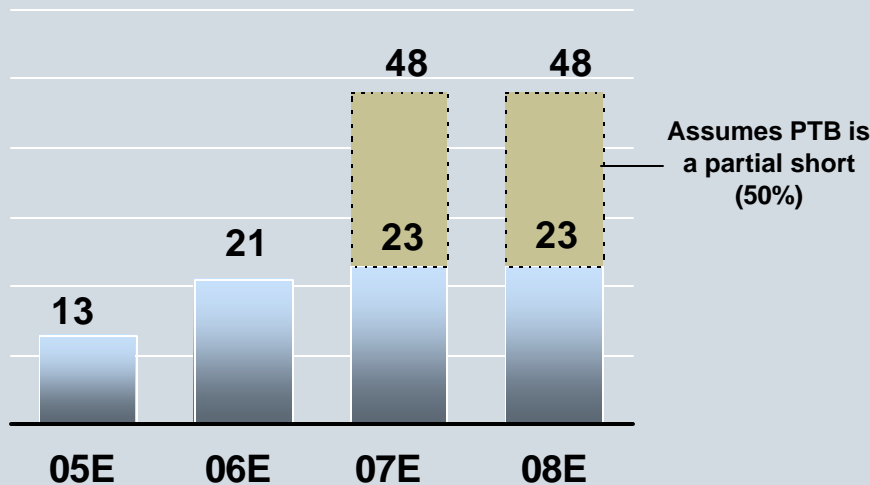
² 24X7 market heat rate = 7.7 MMBtu/MWh

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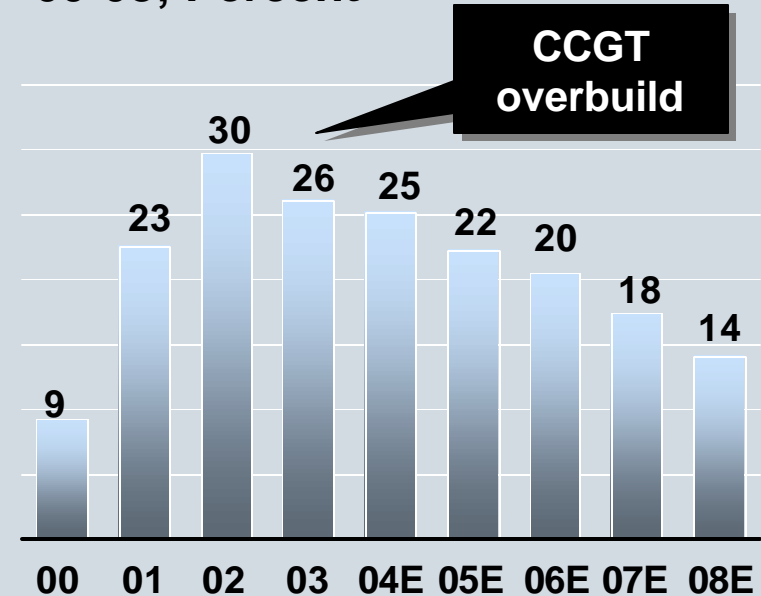
⁴ Assumes Fuel Factor adjustment @ 7.10 MMBtu/MWh

TXU's Long Term Gas Exposure Is Further Mitigated By Our Long Heat Rate Position

Heat rate position
04-08; TWh



ERCOT reserve margins²
00-08; Percent



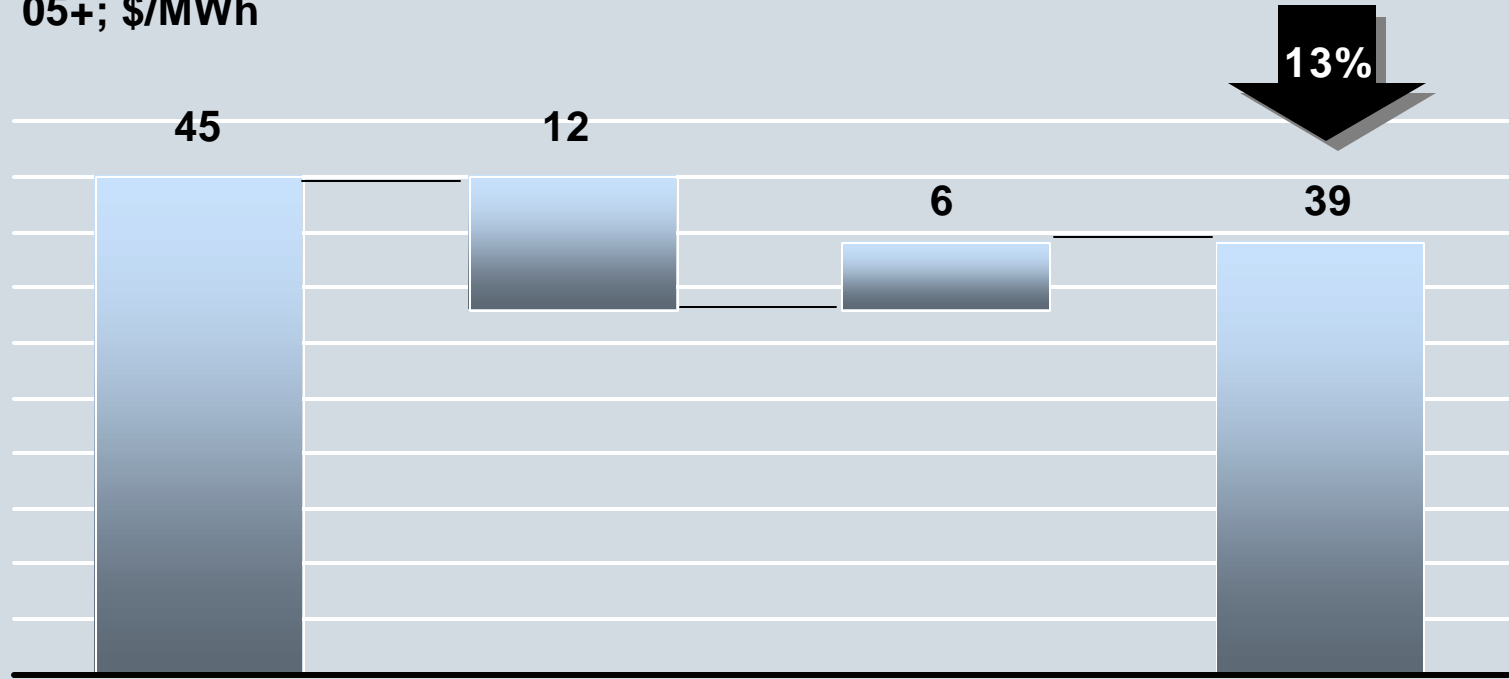
- *With little new capacity coming on line reserve margins will likely decline*
- *As reserve margins decline, market heat rates are expected to increase*
- *TXU's long heat rate position helps to mitigate long term gas price downside*

1 Assumes \$5.00 natural gas and PTB acts as a 50% short to heat rate

2 Based on ERCOT estimates; assumes mothball units do not come back on line in future years

Although Wholesale Power Prices Would Decline With \$4.50 Gas, Partially Offset By Heat Rate Uplift...

Power Price
05+; \$/MWh



2005 24x7
wholesale
power price

Change due to
gas price
6.18 → 4.50

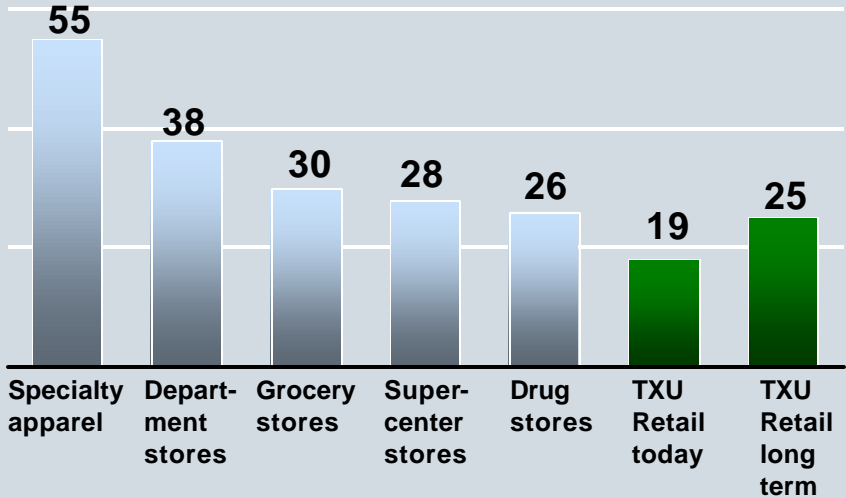
Change due to
heat rate
7.3 → 8.7

Illustrative
long-term
power price

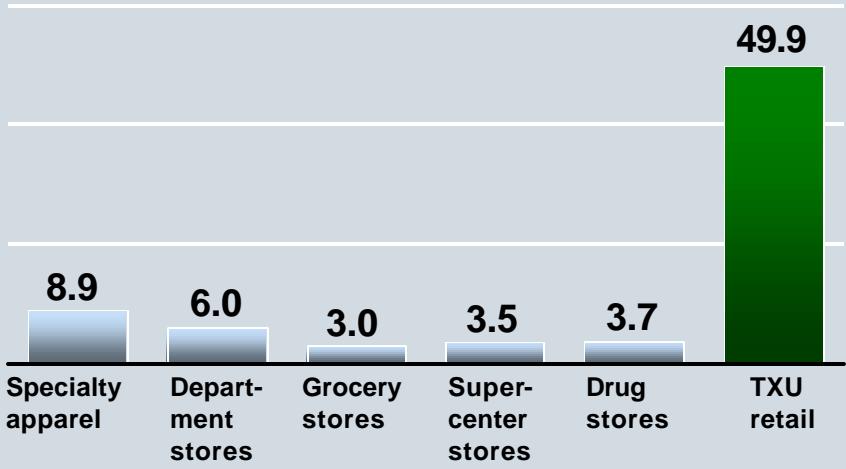
Potential increases in heat rate are an offset to potential drops in gas prices

...Retail Margins Would Remain Well Below Other Industries When Normalized For Volatility...

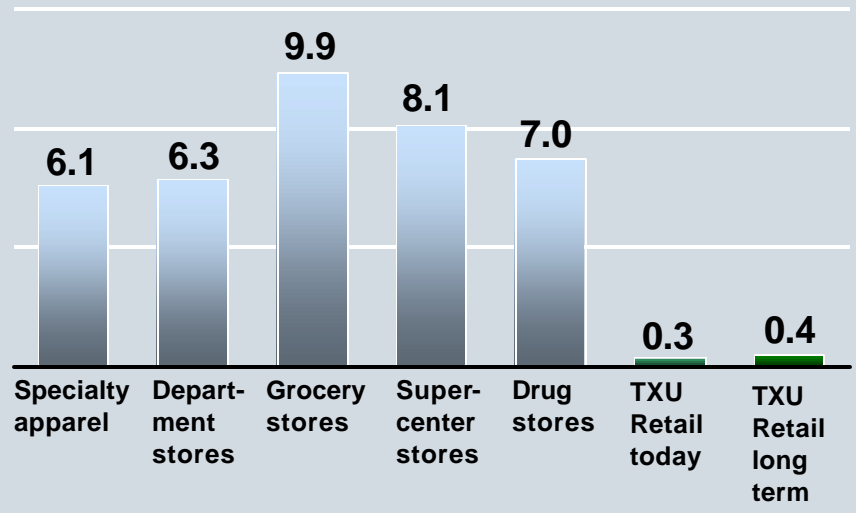
Gross margin
99-04 (except TXU=02-04); Percent



Volatility¹ of gross margin
99-04 (except TXU=02-04); Percent



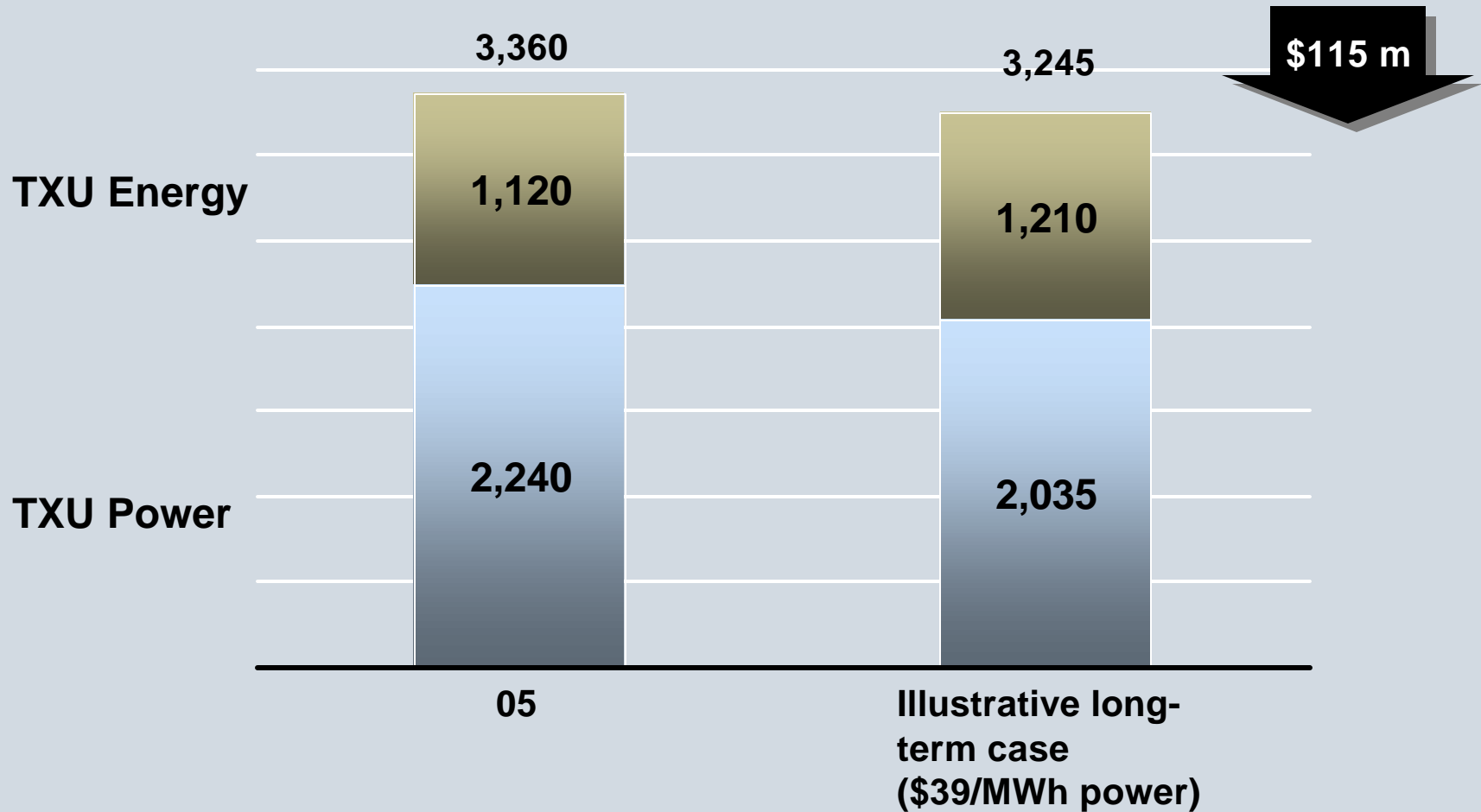
Gross margin per volatility
99-04; No units



¹ Defined as standard deviation of quarterly gross margin normalized by initial gross margin

...Allowing TXU To Mitigate Wholesale Market Downside Through The Integrated Business Model

Gross margin
05+; \$ millions



In this \$4.50 gas price scenario, TXU's integrated business model protects against the downward gas price movement through sustainable retail margins

Today's Agenda

Business Model

- Key Objectives
- Business Positioning/Strategy

Performance Improvement

- Phases of Restructuring
- Size of Improvement Opportunity
- Examples

Conclusions

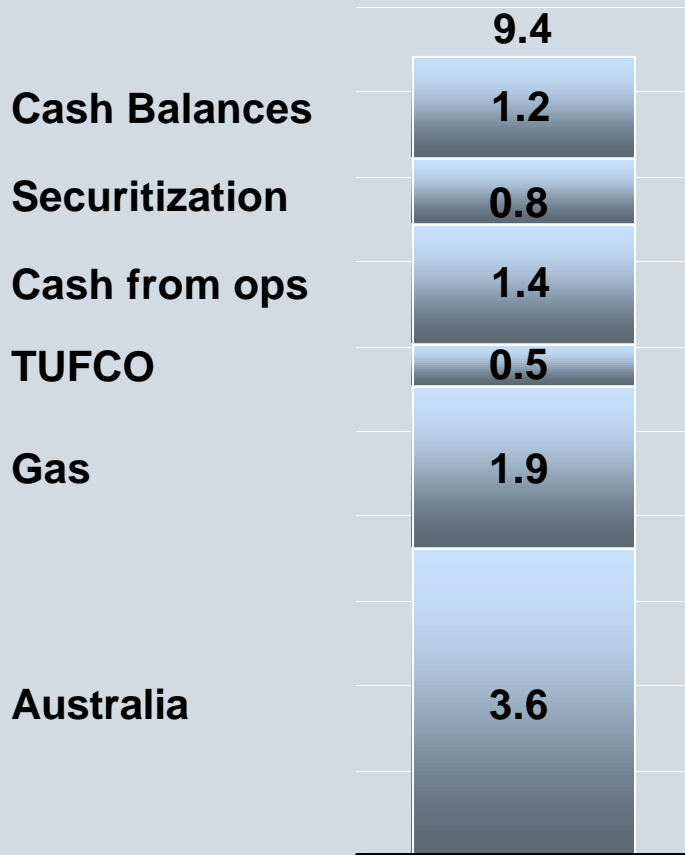
- Key Messages

TXU's Three-Phase Restructuring Program

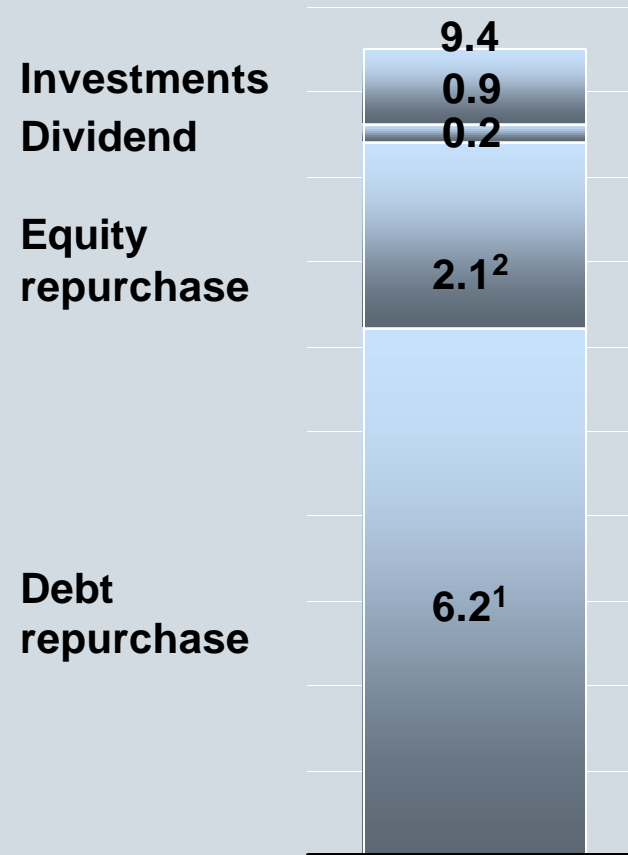
Phase	What We Needed To Do	How We Did It/ How We Are Doing It
<p>Phase 1: <i>Rationalize, Restructure & Restore Profitability</i></p>	<ul style="list-style-type: none"> ▪ Execute no-regrets transactions ▪ Improve financial flexibility ▪ Capture “quick-hit” profitability improvements ▪ Assess key risks and implement mitigation plans 	<ul style="list-style-type: none"> ▪ Sold TXU Australia, TXU Gas, and TXU Fuel Co. ▪ Deployed proceeds to repair balance sheet ▪ Strengthened contribution margins ▪ Implemented customer service improvements
<p>Phase 2: <i>Strengthen the Core & Drive Performance Improvement</i></p>	<ul style="list-style-type: none"> ▪ Undertake comprehensive review of business performance ▪ Identify profitability improvements based on detailed assessments ▪ Embed profitability improvement targets in business plan 	<ul style="list-style-type: none"> ▪ Launched > 25 teams to develop improvement plans ▪ Link initiative targets to the financial plan and incentive compensation
<p>Phase 3: <i>Sustain and Grow</i></p>	<ul style="list-style-type: none"> ▪ Develop rigorous cash stewardship and capital allocation philosophy ▪ Leverage distinctive capabilities to grow 	<ul style="list-style-type: none"> ▪ Implement capital allocation philosophy ▪ Pursue value-creating growth opportunities

We Divested Disadvantaged Businesses, Deploying Proceeds To Improve Financial Flexibility

**Phase 1: Sources of cash
04E; \$ billions**



**Phase 1: Uses of cash
04E; \$ billions**

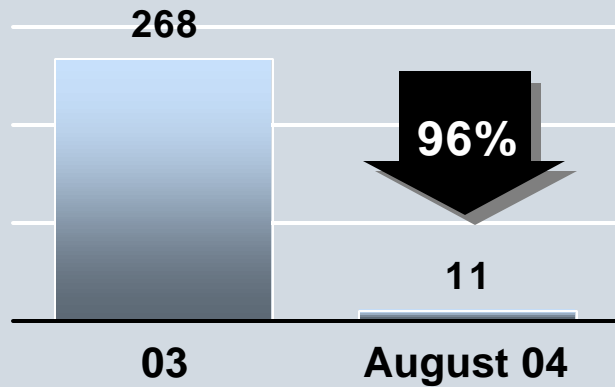


¹ Includes debt assumed in asset sales and premiums

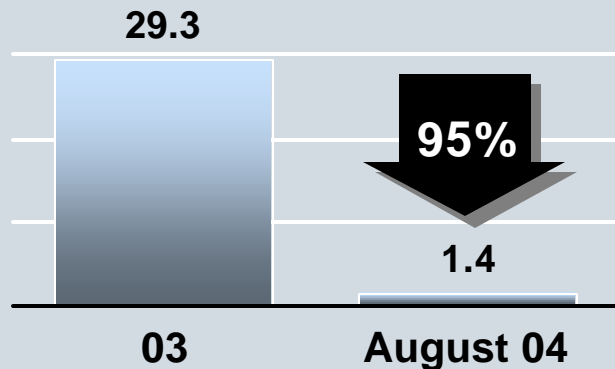
² Includes equity portion of EPMI repurchase

TXU Has Achieved Significant Improvements In Customer Service And Significantly Reduced Churn

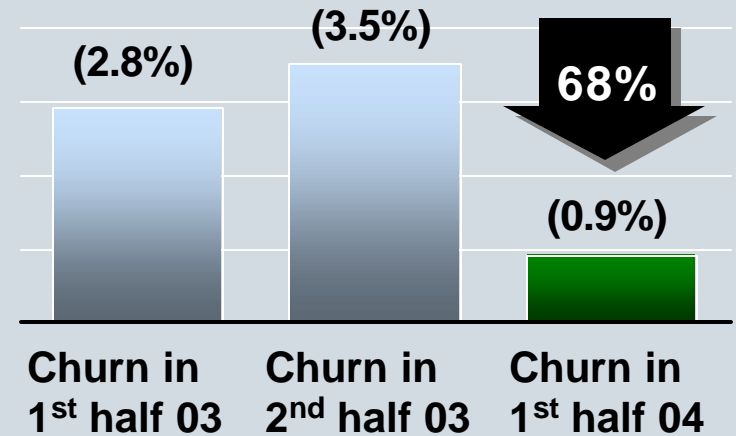
Average speed of answer
03-04; Seconds



Customer abandonment rate
03-04; Percent

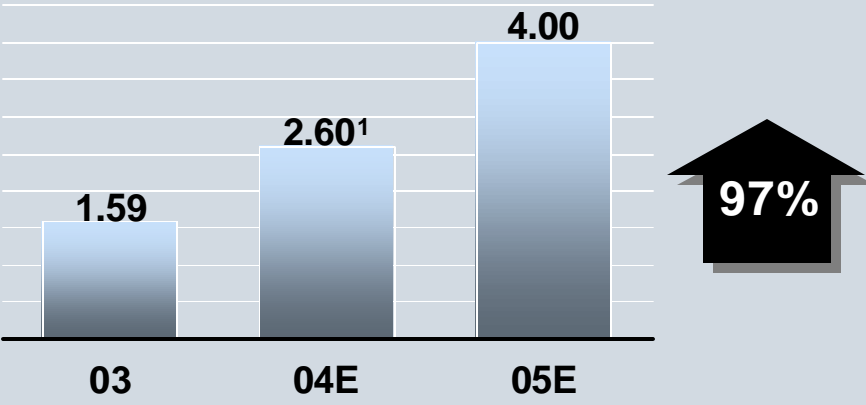


North Texas mass market customer net churn
03-04; Percent of customers

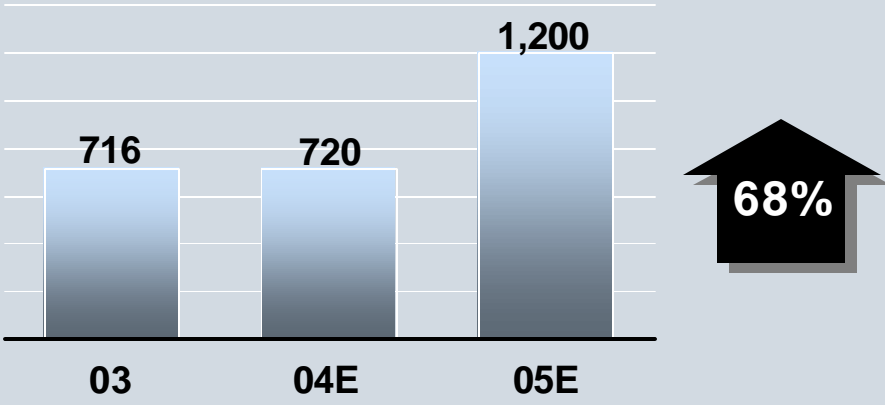


Phase 1 Significantly Reshaped TXU's Financial Profile

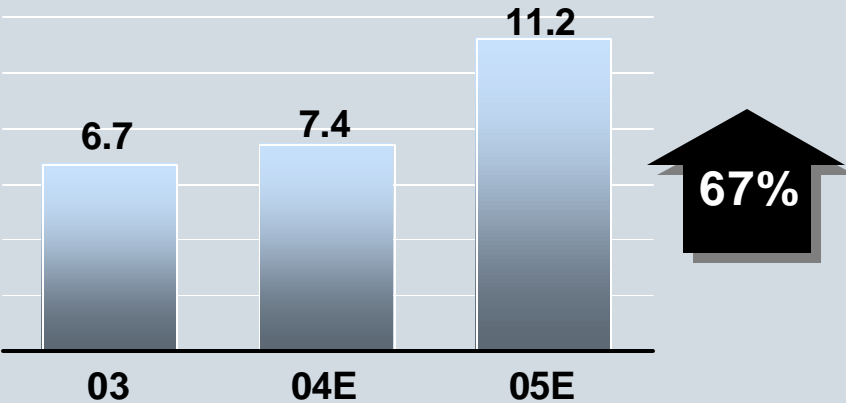
Operational EPS
03-05; \$ per share



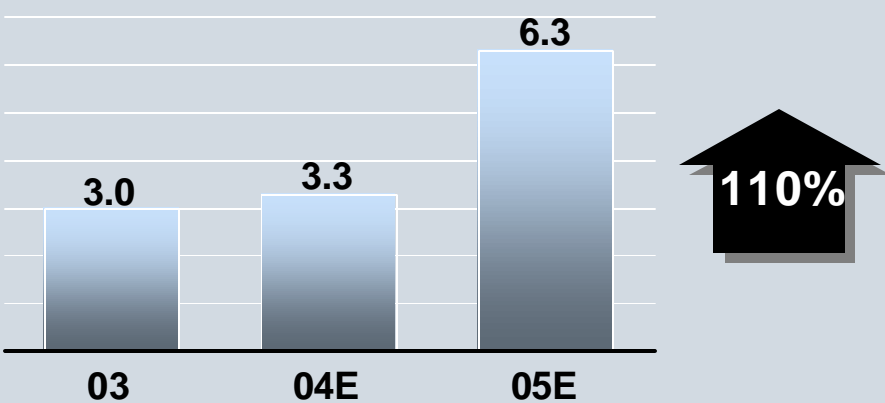
Free cash flow
03-05; \$ millions



ROIC
03-05; Percent



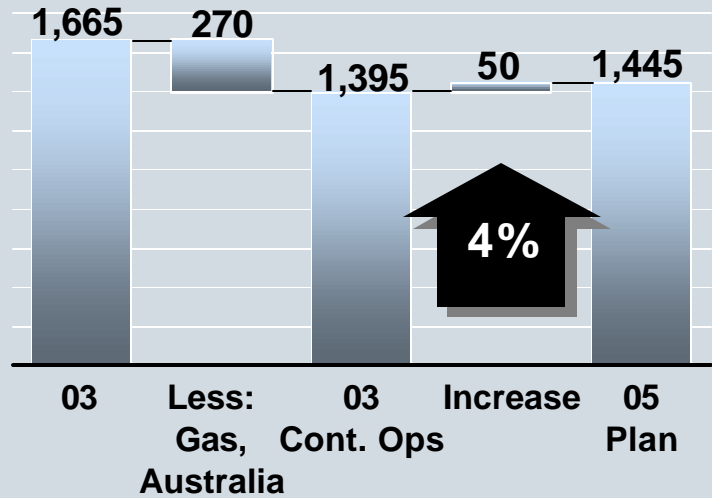
Gross interest coverage
03-05; Ratio



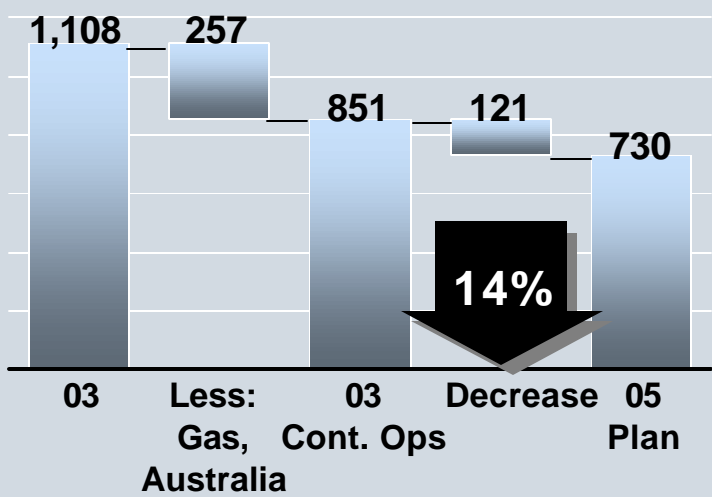
¹ Updated for second quarter earnings release

Little Of The Improvement Has Come From Productivity Gains...

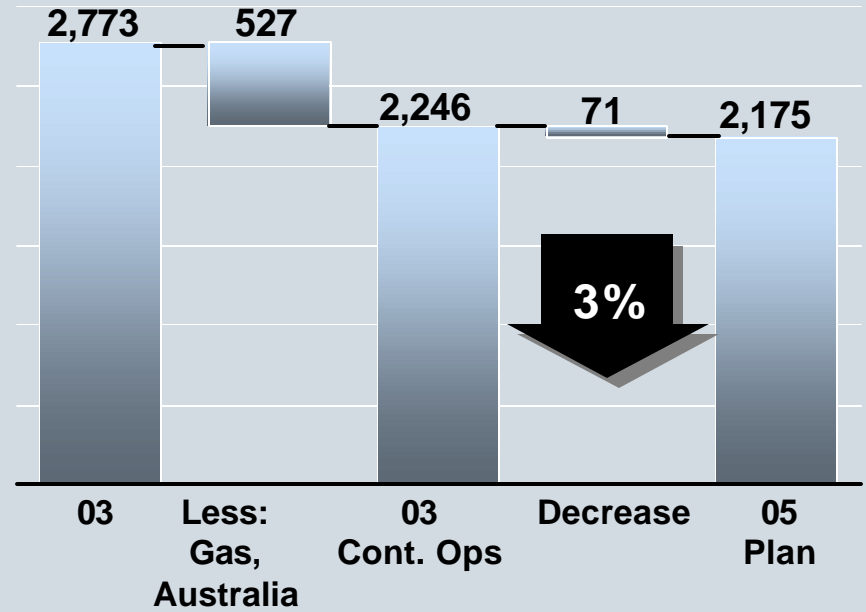
O&M costs
03-05; \$ millions



SG&A costs
03-05; \$ millions



O&M and SG&A costs
03-05; \$ millions



...And Phase 1 Execution Is Largely Complete

EPS improvements by major driver
03-05; \$ per share



* Includes dilution adjustments

TXU's Three-Phase Restructuring Program

Phase	What We Needed To Do	How We Did It/ How We Are Doing It
<p>Phase 1: <i>Rationalize, Restructure & Restore Profitability</i></p>	<ul style="list-style-type: none"> ▪ Execute no-regrets transactions ▪ Improve financial flexibility ▪ Capture “quick-hit” profitability improvements ▪ Assess key risks and implement mitigation plans 	<ul style="list-style-type: none"> ▪ Sold TXU Australia, TXU Gas, and TXU Fuel Co. ▪ Deployed proceeds to repair balance sheet ▪ Strengthened contribution margins ▪ Implemented customer service improvements
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Initial View Of Performance Improvements Will Come From Many Bottom-Up Initiatives...

	Initiatives	Annual EBIT improvement opportunity
Revenue	<ul style="list-style-type: none">▪ Baseload capacity and utilization▪ Customer retention▪ South Texas contribution margin▪ Large business contribution margin▪ Plant heat rate	~\$150 m
O&M and Fuel Costs	<ul style="list-style-type: none">▪ Gas fleet utilization and purchased power▪ Baseload plant O&M costs▪ Supply chain costs▪ Overtime reduction	~\$200 m
SG&A Costs	<ul style="list-style-type: none">▪ Benefits cost▪ Bad debt expense▪ Real estate and lease costs▪ Other SG&A costs	~\$250 m

...Targeting Specific High Value Drivers

Value Driver	Example	Unit	Phase 1 plan 05	Target	Potential EBIT improvement (millions)
TXU Power					
▪ Lignite O&M costs	1	\$/MWh	4.9	4.0	40
▪ Nuclear O&M costs		\$/MWh	12.0	9.0	65
▪ Lignite capacity factor	1	%	86.5	92.5	100
▪ Nuclear capacity factor		%	88.5	94.5	50
TXU Energy					
▪ Residential load	2	Year over year % volume	4.0%	2.0%	15
▪ Bad debt		% revenue	1.4	0.75%	40
▪ Wholesale purchased power		\$/MWh	2-3% > MCPE ¹	MCPE	75
Corporate					
▪ SG&A costs ²	3	\$	640	540	100
▪ Benefits		\$000 / employee	26	18	60
▪ Leases/real estate		\$ millions	100	60	40

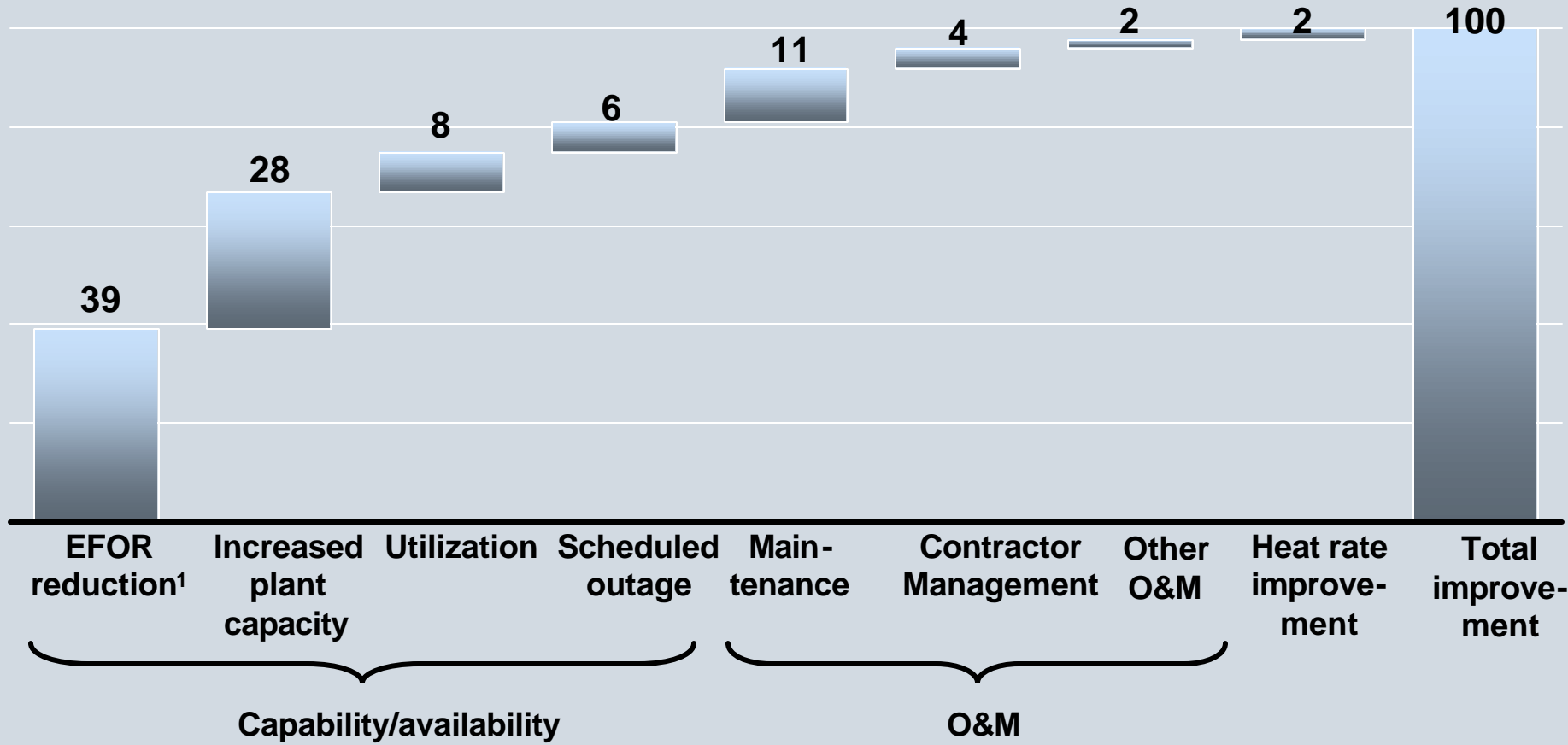
Top-down benchmarks highlight a ~\$600 m improvement opportunity

¹ Market clearing price of energy

² Excluding bad debt

Example 1 - Baseload Pilots Are Developing Bottom-Up Performance Improvement Estimates...

Estimated long-term EBIT improvement
04; Percent



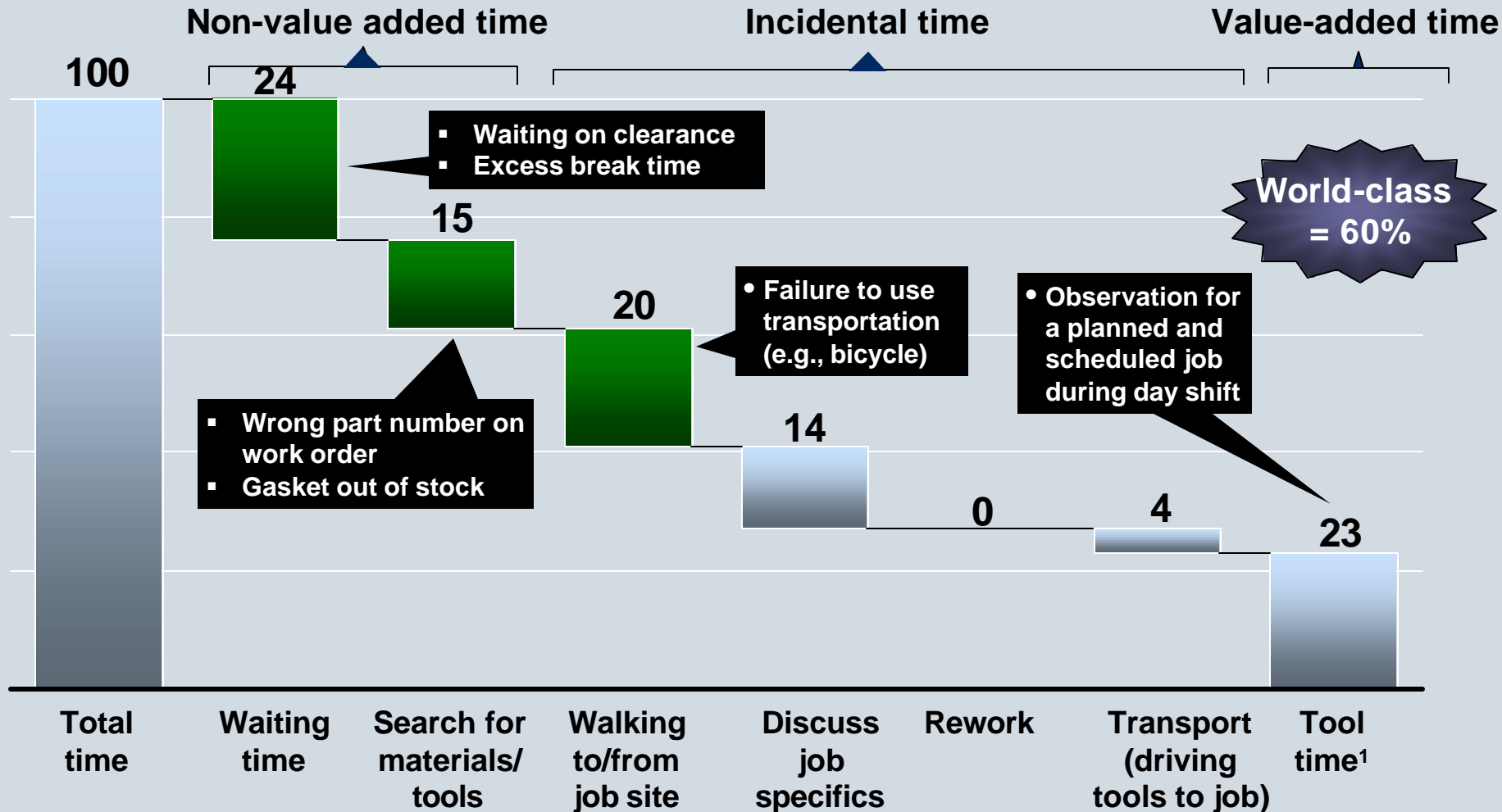
Capturing similar opportunities across the network can be a \$140 m EBIT opportunity

¹ EFOR-Equivalent Forced Outage Rate

...Based On Detailed Analysis Of Plant Maintenance...

Tool time

04; Percent of total time

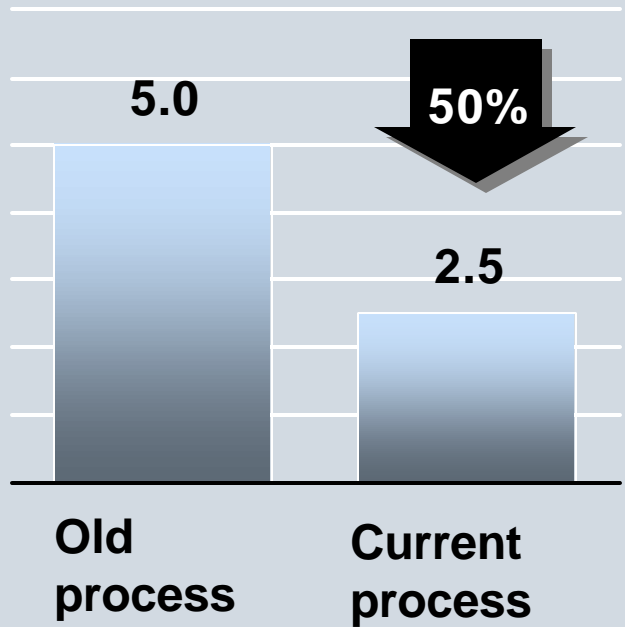


Maintenance efficiency can be a \$15 m EBIT opportunity

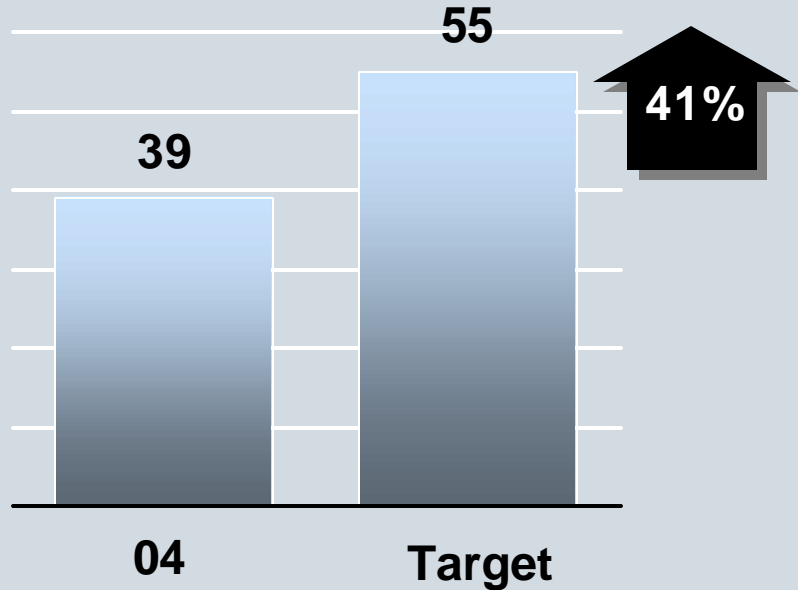
¹ Tool time defined as value-added portion of activity (i.e., on tools fixing it right the first time)

...Process Improvement...

Dragline changeout process
04; Hours



Dragline OEE¹
04; Percent

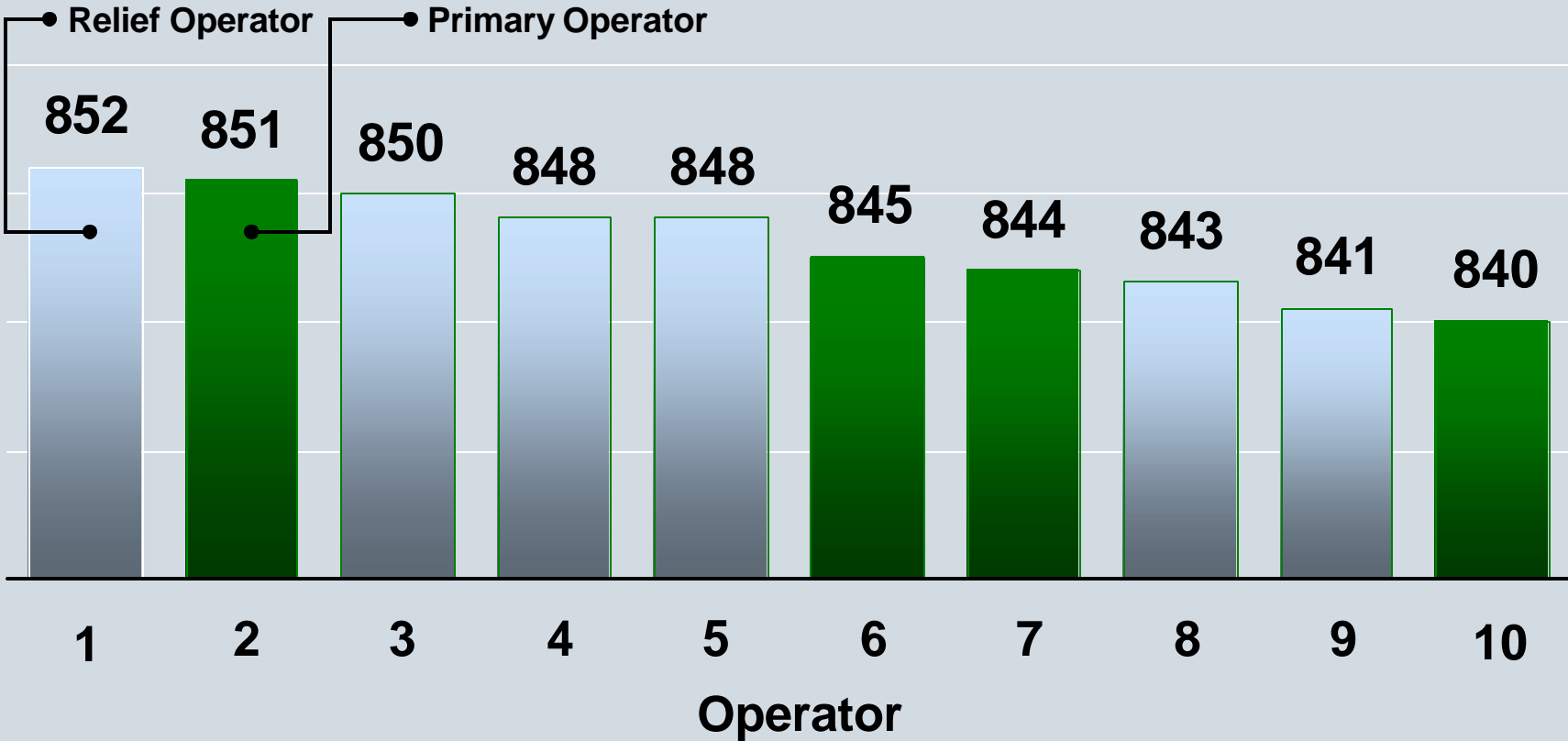


Dragline process improvements can increase productivity by 40%

¹ Overall equipment efficiency

...Capacity Utilization...

Operator performance
04; Average MW achieved

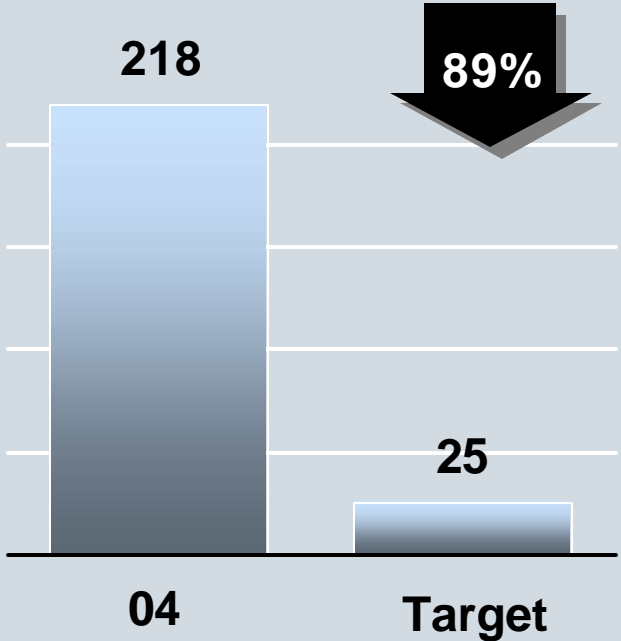


Consistent operator high performance can be a \$2 m EBIT opportunity

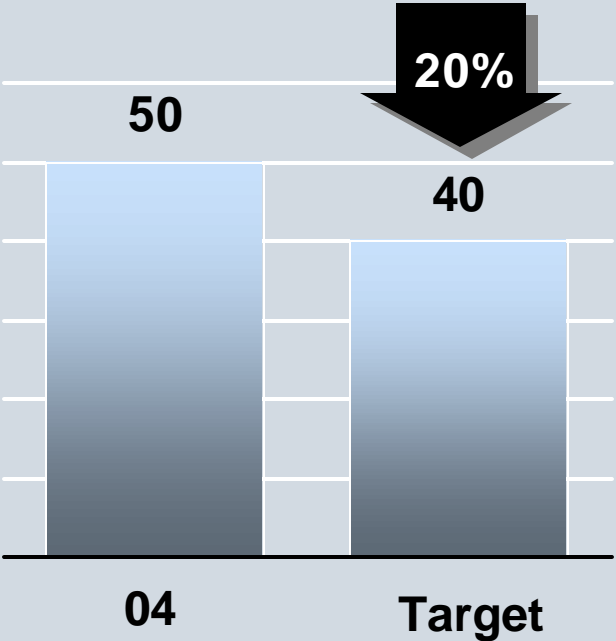
¹ Excludes all conditions out of the operators control (e.g., equipment failures, low Btu fuel)

...And Strategic Sourcing

Power MRO¹ suppliers
04; Number



Annual power MRO spend
04; \$ millions



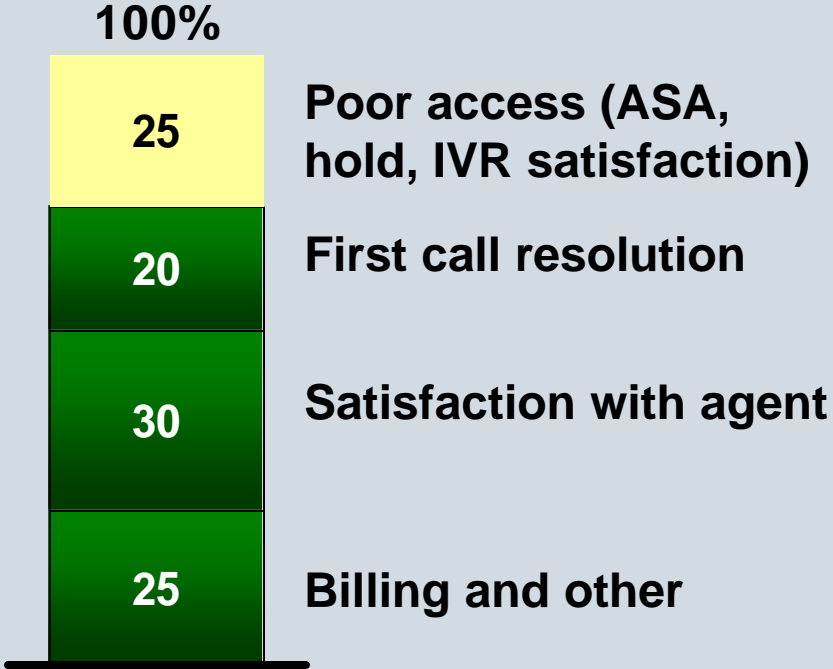
Power MRO sourcing can be a \$10 m EBIT opportunity

1 Maintenance, repair, and operations

Example 2 - Reducing Residential Churn...

Customer research indicates that 20 – 40% of customer switch due to a poor “customer experience”

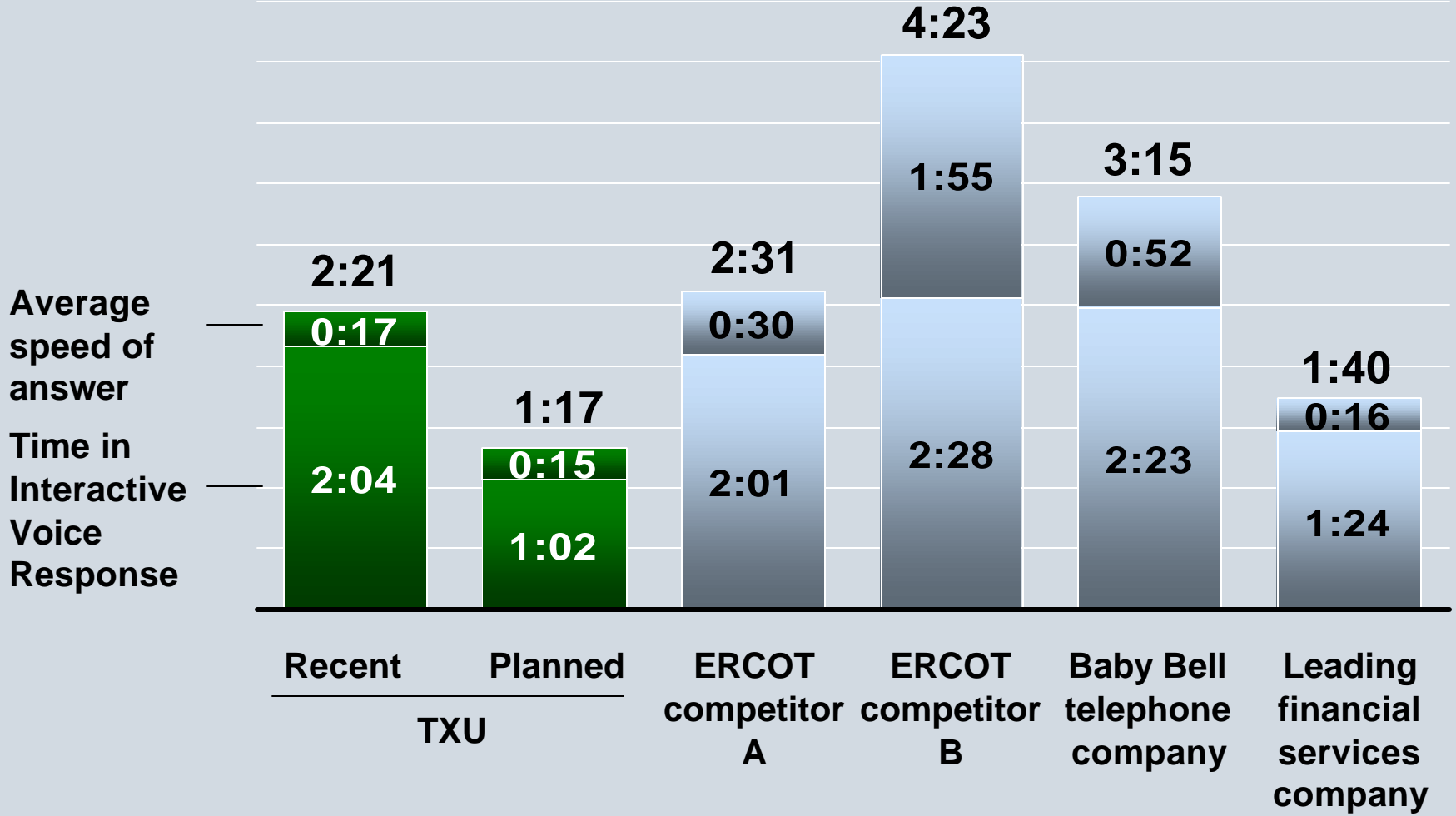
**Reason for poor experience
04; Percent**



A full year 1% reduction in customer churn can be a \$7.5 m EBIT opportunity

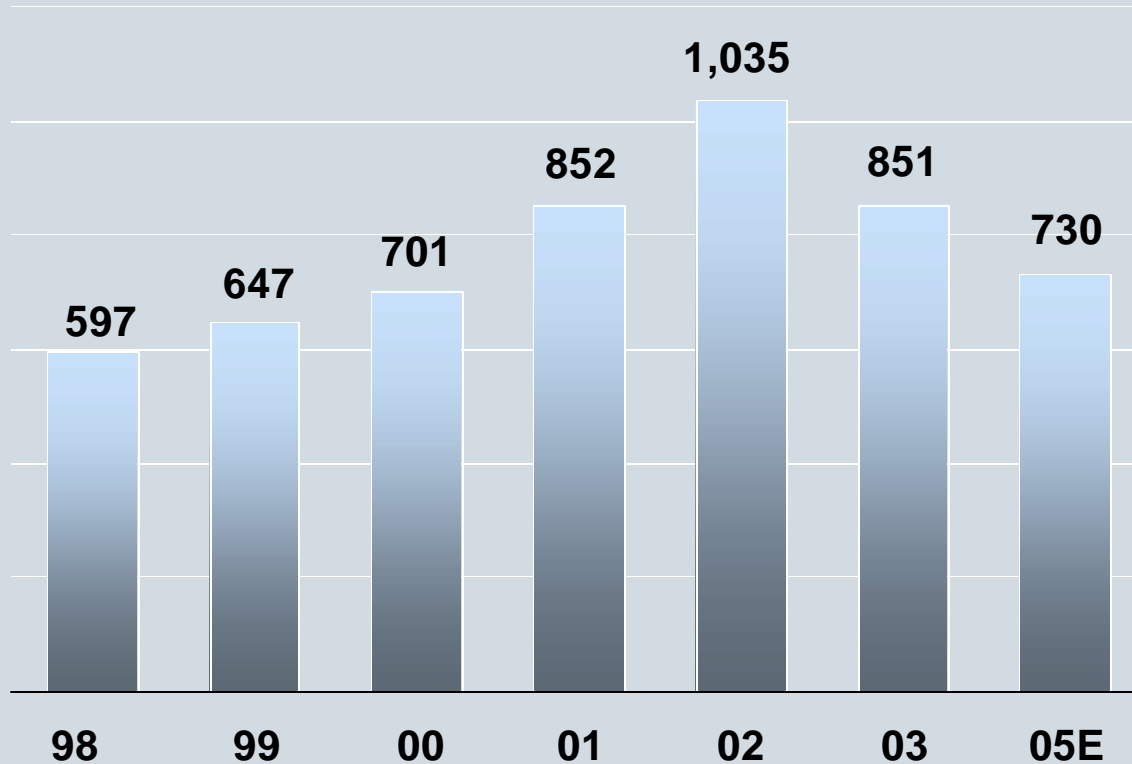
...By Developing A Program To Deliver An Exceptional Customer Access Experience

Average time to reach call representative
 04; Minutes: seconds



Example 3: We Are Attacking the SG&A Spend Categories That Have Increased Over Time

SG&A costs from continuing operations
98-05E; \$ millions



- *Initiative teams are systematically reviewing drivers of increase*
 - *Headcount and salaries*
 - *Insurance*
 - *Bad debt*
 - *3rd-party professional spending*

Achieving 98 SG&A cost levels with industrial company productivity gains can be a \$130 m EBIT opportunity

Today's Agenda

Business Model

- **Key Objectives**
- **Business Positioning/Strategy**

Performance Improvement

- **Phases of Restructuring**
- **Size of Improvement Opportunity**
- **Examples**

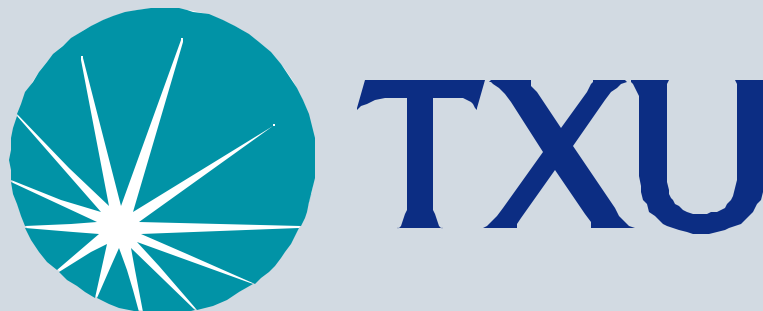
Conclusions

- **Key Messages**

TXU: A Sustainable Business Model; Phase 1 Restructuring Nearly Complete; Ample Phase 2 Improvement Opportunities

- **Focused on structurally advantaged core businesses in high growth markets**
- **Integration of TXU Power and TXU Energy provide natural commodity hedge**
- **Strong TXU brand recognition provides key competitive advantage**
- **TXU's financial profile has been rejuvenated**
 - ✓ **2X earnings power**
 - ✓ **70% increase in cash flow**
 - ✓ **Double digit ROIC**
 - ✓ **Top quartile financial flexibility**
- **Phase II opportunities (~\$600 m EBIT) provide significant upside over the next 1 to 5 years**

Appendix



Regulation G Reconciliations

TXU management is currently unable to accurately estimate the impact of special items or changes in accounting principles or policies on free cash flow, return on invested capital, total debt to total capitalization or gross interest coverage. TXU is therefore currently unable to provide the most directly comparable GAAP measure to these items.

Financial Measures

Measure	Definition
Gross interest	Interest and related charges from the income statement
Gross Interest coverage	$(\text{Income from continuing operations before gross interest and income tax expense} + \text{depreciation and amortization}) / \text{Gross Interest}$
Operational earnings per share (non-GAAP)	Income from continuing operations less preference share dividends and excluding special items / weighted average diluted common shares outstanding
Income from continuing operations	Income from continuing operations before extraordinary items and cumulative effect of changes in accounting principles from the income statement
O&M	Operation and maintenance expenses are shown as "operating costs" on TXU Corp and segment income statements.
Free cash flow (non-GAAP)	Cash provided by operating activities – changes in assets and liabilities – capital expenditures (including nuclear fuel)
Operating cash flow (OCF)	Cash provided by operating activities (GAAP) before changes in assets and liabilities
Special items	Unusual non-recurring charges or gains, primarily related to implementation of the 4+4 performance improvement program. Management excludes these in determining operational earnings for budget and performance management purposes
Return on invested capital (ROIC) (non-GAAP)	$(\text{Operational earnings} + \text{preference stock dividends} + \text{after-tax gross interest expense}) / \text{average total capitalization}$
Contribution margin	Operating revenues – cost of energy sold and delivery fees
Capex	Capital expenditures
EBIT	Net income before gross interest and income tax expense

Reconciliation 1

TXU Electric Delivery Company

Operational earnings

For the year ended December 31, 2003; \$ and shares in millions

Net income	\$ 258
Average shares of TXU Corp. common stock outstanding - diluted (millions)	379
Operational earnings per share	\$ 0.68

Reconciliation 2

TXU Energy Company LLC

Operational EPS

For the year ended December 31, 2003; \$ and shares in millions

Income from continuing operations before extraordinary loss and cumulative effect of changes in accounting principles	493
Average shares of TXU Corp. common stock outstanding - diluted	379
Operational EPS	\$ 1.30
Energy Segment Operational EPS	\$ 0.28
Power Segment Operational EPS	\$ 1.27
Hedge Loss (\$90 million, net of tax)	<u>\$ (0.25)</u>
Total Operational EPS	\$ 1.30

Reconciliation 3

TXU Corp.

Operational EPS

For the year ended December 31, 2003; \$ and shares in millions

Income from continuing operations before extraordinary loss and cumulative effect of changes in accounting principles	\$ 737
Less Preference stock dividends	<u>(22)</u>
Operational earnings	715
After-tax interest on preferred membership interests in TXU Energy	<u>53</u>
Adjusted operational earnings for diluted EPS calculation	768
Less TXU Gas net income	40
Less Australia segment net income	102
Less TXU Gas and Australia segment intercompany interest to TXU Corp	<u>22</u>
Operational earnings - after transactions	\$ 604
Average shares of common stock outstanding - diluted (millions)	379
Operational earnings per share - diluted	\$ 2.03
Operational earnings - after transactions per share - diluted	\$ 1.59

Reconciliation 4

TXU Corp.

Free cash flow and capital expenditures

For the year ended December 31, 2003; \$ millions

Cash provided by operating activities		\$ 2,798
Less changes in operating assets and liabilities:		
Accounts receivable - trade	367	
Inventories	(67)	
Accounts payable - trade	(5)	
Commodity contract assets and liabilities	25	
Margin deposits	25	
Other assets	382	
Other liabilities	<u>355</u>	
Total changes in operating assets and liabilities		1,082
Less Capital expenditures:		
Capital expenditures	956	
Nuclear fuel	<u>44</u>	
Total capital expenditures		<u>1,000</u>
Free cash flow		<u>\$ 716</u>

Reconciliation 5

TXU Corp.

Return on Invested Capital (ROIC)

For the year ended December 31, 2003; \$ millions

Operational earnings		715
Preference stock dividends		22
Interest expense and related charges	975	
Taxes at 35%	341	
After-tax interest expense and related charges	<u> </u>	<u>634</u>
Total Return		1,371
Average invested capital		20,322
Return on invested capital		6.7%

Reconciliation 6

TXU Corp.

Gross interest coverage

For the year ended December 31, 2003; \$ millions

Income from continuing operations before interest, tax and D&A:

Income before income taxes, extraordinary loss and cumulative effect of change in accounting principles	\$ 1,051
Interest expense and related charges	975
Depreciation and amortization, other than goodwill	<u>886</u>
Income from continuing operations before interest, tax and D&A	<u><u>\$ 2,912</u></u>
Gross interest	975
Gross interest coverage	3.0