



TXU Quarterly Analyst Meeting

February 10, 2003

Investor Relations Calendar



Upcoming Events

UBS Warburg Conference, New York	February 13
Special Shareholder Meeting, Dallas	February 14
EEI International Conference, London	February 16-19
Morgan Stanley Conference, New York	March 13
TXU First Quarter Earnings Release	May 1

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 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**
- **Mike McNally** **Financial Overview**
- **Brian Dickie** **North America Energy**
- **Tom Baker** **North America Energy Delivery**
- **Tom Baker** **Legislative/Regulatory Update**
- **Erle Nye** **Conclusion**

- **Clean slate and clear path forward**
- **Leadership positions in Texas and Australia**
- **Texas market is open and working**
- **Strong core operations**
- **Focused on execution**

- **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**

Financial Overview

N. America Energy & Energy Delivery

Q4 2002 Consolidated Income



	(\$ million)		
	<u>2002</u>	<u>2001</u>	<u>Change</u>
Operating revenues	2,283	2,403	(120)
Cost of energy...	1,150	1,017	133
Operating & SG&A costs	708	664	44
Depreciation/amortization	196	179	17
Other deductions	10	100	(90)
Net interest expense	137	112	25
Franchise tax/other	116	116	-
Income tax expense (benefit)	<u>(21)</u>	<u>77</u>	<u>(98)</u>
Income before extraordinary	(13)	138	(151)

*2002 excludes retail clawback (\$185M in Cost of energy...), severance (\$28M in SG&A) and impairment (\$237M in Other deductions)

N. America Energy & Energy Delivery

Q4 2002 vs. Q4 2001 Variance



		(\$ million)	
	<u>Change</u>	<u>PtB/Non-recurring</u>	<u>Adjusted</u>
Operating revenues	(120)		
2001 mitigation	<u>100</u>		
Revenue change	(20)	-	(20)
Cost of energy...	133	(133)	-
Operating & SG&A costs	44	(20)	24
Depreciation/amortization	17	-	17
Other deductions/mitigation	10	-	10
Net interest expense	25	-	25
Franchise tax/other	-	-	-
Income tax	<u>(98)</u>	<u>54</u>	<u>(44)</u>
Income before extraordinary	(151)	(99)	(52)

Excludes exceptional items

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

Indicative Net Income (\$ million)



	<u>2002 Actual</u>	<u>2003 Plan</u>
Energy Delivery	252	230 – 240
Energy	536	600 – 630
Australia	74	65
Corp. & Other	<u>(240)</u>	<u>(205)</u>
Total	622	690 – 730
Avg. Shares	278.1	322.5
EPS	\$2.24	\$2.15 - \$2.25
Diluted Avg. Shares	284.1	379.5
Diluted EPS	\$2.21	\$1.95 - \$2.05

Excludes exceptional items

Indicative Cash Flow & Cap. Ex.



(\$ million)

	<u>2003</u>		<u>2004</u>	
	<u>Operating Cash Flow</u>	<u>Capex</u>	<u>Operating Cash Flow</u>	<u>Capex</u>
Energy Delivery	490	653	678	665
Energy	1,052	328	1,133	300
Australia	160	126	190	73
Corp. & Other	<u>585</u>	<u>17</u>	<u>23</u>	<u>14</u>
Total	2,287	1,124	2,024	1,052

Indicative Cash Flow

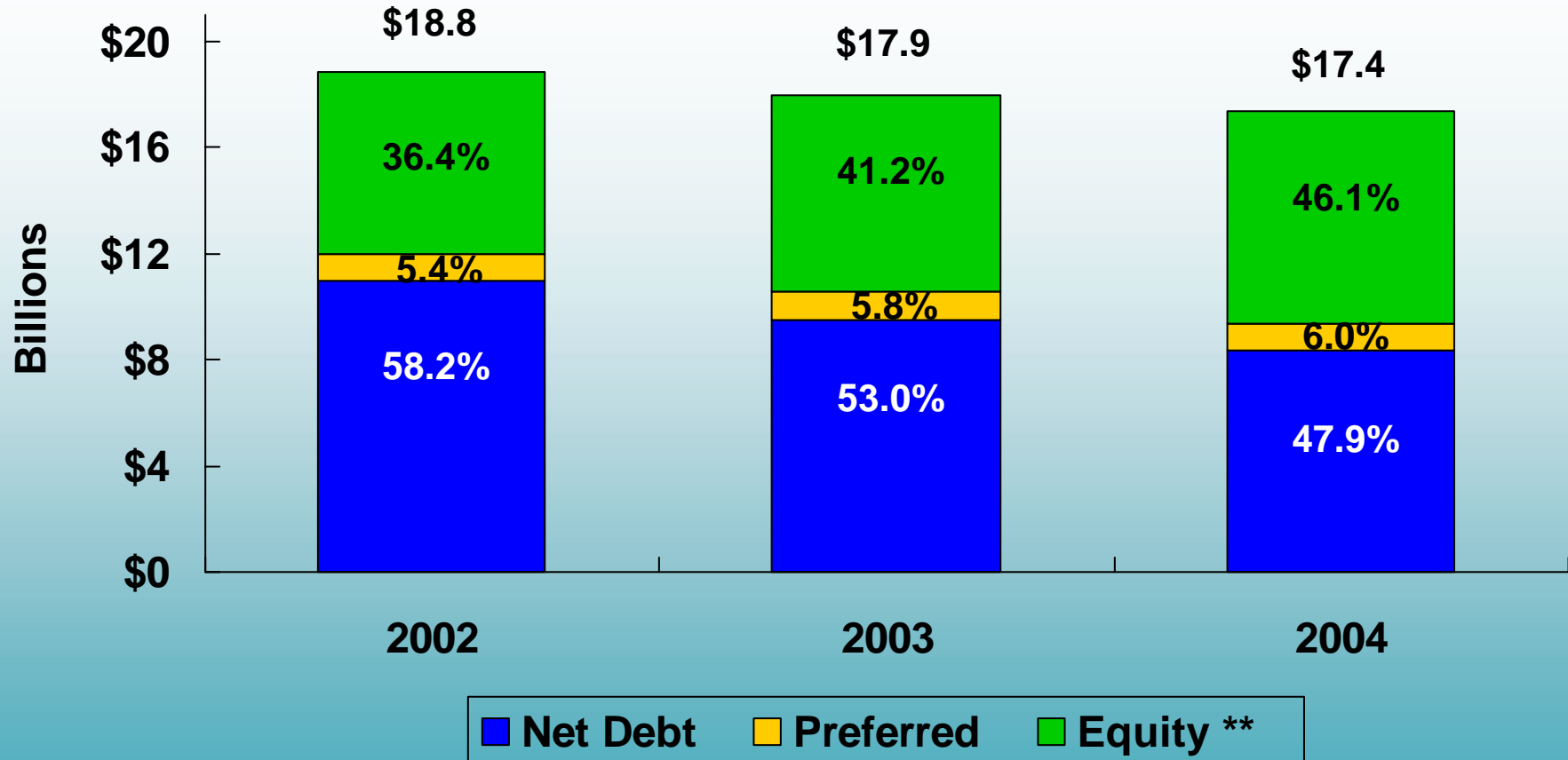


	(\$ million)	
	<u>2003</u>	<u>2004</u>
Cash flow from operations	2,287*	2,024
Securitization	500	800
Capital expenditures	(1,124)	(1,052)
Dividend – common & preferred	<u>(183)</u>	<u>(185)</u>
Cash available to pay down debt	1,480	1,587

* Includes \$600M IRS refund

Excludes capital contribution to Pinnacle to fund unwind of structure

Capitalization *



* Excludes securitization debt

** Equity includes mandatory converts and convertible preferred

North America Liquidity



	(\$ million)	
	<u>2003</u>	<u>2004</u>
Beginning liquidity	1,867	1,816
Cash from operations	2,128	1,834
Financing*	500	800
Maturities and redemptions	(1,498)	(837)**
Capital expenditures	(998)	(979)
Dividends	<u>(183)</u>	<u>(185)</u>
Ending liquidity	1,816	2,449

Commit to maintain liquidity above \$1.5B

*** Only securitization is assumed**

****Excludes Pinnacle maturity**

- **Maximize free cash flow**
 - **Reduce operating costs**
 - **Deliver gross margin from operations**
 - **Minimize working capital**
- **Strengthen credit, reduce debt**
- **Drive EPS growth from debt reduction**

North America Energy

2002: Year of Changes



- **Competition in Texas**
 - market opening a success, but
 - costly and manually intensive transition
- **Changes in expansion priorities**
 - built for growth in Northeast/Midwest
 - market and credit conditions changed
 - refocused and started to downsize
- **Missed our targets**
 - cost over-runs
 - write-downs
 - shortfall in non-Texas revenues

2003: “Texas First”



- **Protect and build on our leadership position in Texas**
- **Exit non-core activities**
- **Re-scale cost base**
- **Focus on customers and operational excellence**

Strong Texas Portfolio



Production

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

- Low Cost Producer
- Flexible
- Well-located

Portfolio Management

- Portfolio Optimization
- Buy / Sell Wholesale Power
- Fuel Purchases
- Hedging / Risk Management
- Pricing / Analysis
- Structured Transactions

- Enhanced Margins
- Lower Risk

Retail

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

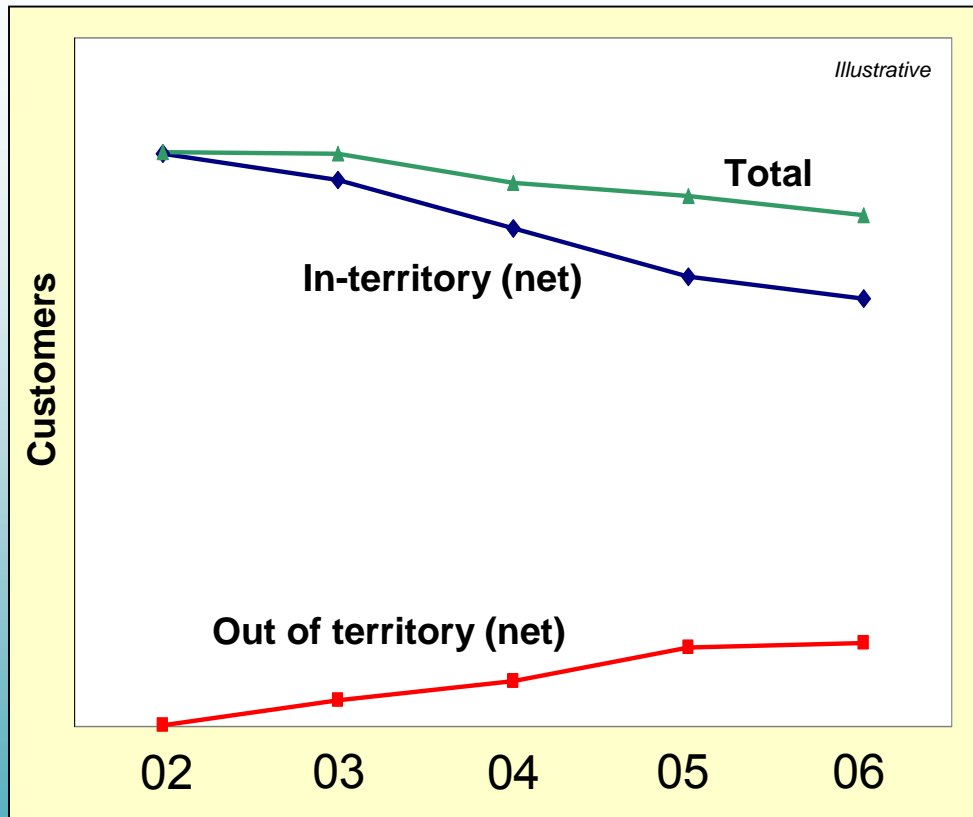
- Leading Competitor
- Realistic View of Competition

Balanced, Integrated, Synergistic

Realistic View of Competition



Customer Trends (Mass Retail)



Plan Assumption

- **2002: customer count maintained**
- **Pressure on market share mitigated by:**
 - Effective marketing
 - Market growth
- **2003: 5% net loss**
- **“Equilibrium”: 2005 – 2006**
- **Margin pressure mitigated by productivity gains**

Cost Program Focus



Focused On:

- Exit from non-core activities
- Customer Operations re-engineering
- Portfolio Management organization refocus/rescale
- Production initiatives
- Organization and Business Process Streamlining
- Normalization of bad debt expense

But Not Impacting:

- Critical safety, maintenance or productivity improvement
- High impact marketing

In Summary: “Texas First”



- **Leadership position in attractive market**
- **Focus on**
 - **Customers**
 - **Costs**
 - **Execution**
- **Strong 2003 Plan**
 - **Stable gross margin; Price-to-Beat by April**
 - **Cost reduction in full swing**

North America Energy Delivery

2002 Overview



- **Strong customer growth and consumption**
- **Electric Delivery results at authorized levels**
- **Continued good record of safety and reliability**
- **Improving profitability in the Gas Delivery business**
- **Successful conclusion to Regulatory Settlement clears the way for securitization**
- **Refinanced over \$3 billion of debt**

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

Regulatory/Legislative Update



- **Legislature focus on budget and insurance**
- **Little interest in altering SB7 – market is working**
- **Public Utility Commission and Railroad Commission**
- **PUC proposals to change Price-to-Beat reasonable**
- **Recent Price-to-Beat filings approved within 45 days**

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**