

Financial Definitions

Operational Earnings (a non-GAAP measure): Income from continuing operations, less special items and preference stock dividends. TXU believes that operational earnings is a useful measure of underlying results because of the magnitude and scope of the performance improvement program and the significant effect of the special items on reported results. TXU relies on operational earnings for evaluation of performance and believes that analysis of the business by external users is enhanced by visibility to both reported GAAP earnings and operational earnings.

Operational Earnings Per Share (a non-GAAP measure): Per share (diluted) income from continuing operations, excluding special items and net of preference stock dividends.

Earning Power (a non-GAAP measure): Operational earnings adjusted upward or downward for weather and/or other unusual items.

EBITDA (a non-GAAP measure): Income from continuing operations before interest income, interest expense and related charges, and income tax plus depreciation and amortization and special items. EBITDA is a measure used by TXU to assess performance.

EBITDA/Interest (a non-GAAP measure): EBITDA divided by cash interest expense is a measure used by TXU to assess credit quality.

Cash Interest Expense (a non-GAAP measure): Interest expense and related charges less amortization and reacquired debt expense plus capitalized interest.

Debt/EBITDA (a non-GAAP measure): Total debt less transition bonds and debt-related restricted cash divided by EBITDA. Transition, or securitization, bonds are serviced by a regulatory transition charge on wires rates and are therefore excluded from debt in credit reviews. Debt-related restricted cash is treated as net debt in credit reviews. Debt/EBITDA is a measure used by management to assess credit quality.

Normalized Operating Cash Flow (a non-GAAP measure): Cash provided by operating activities adjusted for unusual or nonrecurring items. Used predominantly as a forecasting tool to estimate cash available for capital expenditures, nuclear fuel, dividends, debt reduction and other investments.

Free Cash Flow (a non-GAAP measure): Operating cash flow less capital expenditures and nuclear fuel. Used predominantly as a forecasting tool to estimate cash available for dividends, debt reduction and other investments.

Normalized Free Cash Flow (a non-GAAP measure): Free cash flow adjusted for unusual or nonrecurring items.

Return on Invested Capital Based on Operational Earnings (a non-GAAP measure): Operational earnings plus preference stock dividends plus after-tax interest expense and related charges net of interest income on restricted cash related to debt, divided by the average of the beginning and ending total capitalization less debt-related restricted cash for the period calculated. This measure is used to evaluate operational performance and management effectiveness.

Total Capitalization (a non-GAAP measure): Total debt plus shareholders' equity.

Total Debt (a GAAP measure): Long-term debt (including current portion) plus bank loans and commercial paper plus long-term debt held by subsidiary trusts plus preferred securities of subsidiaries, including exchangeable preferred membership interests (EPMIs).

Total Debt less transition bonds and restricted cash (a non-GAAP measure): TXU also uses a total debt measure that excludes transition bonds and restricted cash. Transition, or securitization, bonds are serviced by a regulatory transition charge on wires rates and are therefore excluded from debt in credit reviews. Debt-related restricted cash is treated as net debt in credit reviews. TXU uses this measure to evaluate its debt and capitalization levels.

Enterprise Value (a non-GAAP measure): Total debt plus preference stock plus market value of common equity less cash and restricted cash.

Special Items: Unusual charges related to the implementation of the performance improvement program and other charges, credits or gains that are unusual or nonrecurring. Special items are included in reported GAAP earnings but are excluded from operational earnings. Special items associated with the performance improvement program include debt extinguishment losses and costs related to severance programs, asset impairments and facility closures.

Regulation G Reconciliations

\$ millions and \$ per diluted share unless otherwise noted

| Operational Earnings | 2004 | 2004 | 2003 | 2003 |
|---|-------|--------|------|--------|
| Net income (loss) to common | (386) | (1.29) | 560 | 1.62 |
| Discontinued operations | (378) | (1.26) | (74) | (0.20) |
| Extraordinary gain | (16) | (0.05) | — | — |
| Cumulative effect of changes in accounting principles | (10) | (0.03) | 58 | 0.15 |
| Premium on EPMIs | 849 | 2.83 | — | — |
| Preference stock dividends | 22 | 0.07 | 22 | 0.06 |
| Income from continuing operations | 81 | 0.27 | 566 | 1.63 |
| Preference stock dividends | (22) | (0.07) | (22) | (0.06) |
| Effect of diluted shares calculation | — | 0.04 | — | 0.01 |
| Special items | 828 | 2.58 | — | — |
| Operational earnings | 887 | 2.82 | 544 | 1.58 |

| Return on Average Invested Capital (ROIC) | 2004 | 2003 |
|---|--------|--------|
| Operational earnings | 887 | 544 |
| Preference stock dividends | 22 | 22 |
| After-tax interest expense and related charges ¹ | 434 | 486 |
| Total return (on operational earnings) | 1,343 | 1,052 |
| Average total capitalization | 16,019 | 18,831 |
| ROIC – based on operational earnings (%) | 8.4 | 5.6 |

¹ After-tax interest expense and related charges net of interest income:

| | | |
|------------------|------|------|
| Interest expense | 695 | 784 |
| Interest income | (28) | (36) |
| Net | 667 | 748 |
| Tax at 35% | 233 | 262 |
| Net of tax | 434 | 486 |

| Interest and Debt Coverage Ratios | 2004 | 2003 |
|--|---------|--------|
| Income from continuing operations before taxes and extraordinary items | 123 | 818 |
| Interest expense and related charges | 695 | 784 |
| Interest income | (28) | (36) |
| Depreciation and amortization | 760 | 724 |
| Special items | 1,190 | — |
| EBITDA | 2,740 | 2,290 |
| Interest expense and related charges | 695 | 784 |
| Amortization of discount and reacquired debt expense | (27) | (31) |
| Capitalized interest | 12 | 12 |
| Cash interest expense | 680 | 765 |
| Total debt | 12,889 | 12,591 |
| Transition bonds | (1,258) | (500) |
| Debt-related restricted cash | — | (525) |
| Total debt less transition bonds and debt-related restricted cash | 11,631 | 11,566 |
| EBITDA/interest (ratio) | 4.0 | 3.0 |
| Debt/EBITDA (ratio) | 4.2 | 5.1 |

| Normalized Operating and Free Cash Flow | 2004 | 2003 |
|--|-------|-------|
| Reported cash provided by operating activities | 1,758 | 2,413 |
| Special items | 284 | — |
| 2003 tax refund | — | (601) |
| 2002 collections in 2003 | — | (337) |
| Counterparty settlement | — | 102 |
| Storm reserves | 51 | — |
| Sale of receivables | 73 | (100) |
| Normalized operating cash flow | 2,166 | 1,477 |
| Capital expenditures | (912) | (721) |
| Nuclear fuel | (87) | (44) |
| Normalized free cash flow | 1,167 | 712 |

| Total Debt to Enterprise Value | 2004 | 2003 |
|---|---------|---------|
| Debt | | |
| Notes payable | 210 | — |
| Long-term debt due currently | 229 | 678 |
| Long-term debt held by subsidiary trusts | — | 546 |
| Other long-term debt less amounts due currently | 12,412 | 10,608 |
| Transition bonds | (1,258) | (500) |
| Preferred securities of subsidiaries | 38 | 759 |
| Total debt less transition bonds | 11,631 | 12,091 |
| Preference stock | 300 | 300 |
| Market capitalization | | |
| Shares outstanding | 240 | 324 |
| Price per share of common stock | 64.56 | 23.72 |
| Total market capitalization | 15,494 | 7,685 |
| Cash and restricted cash | (202) | (1,423) |
| Enterprise value | 27,223 | 18,653 |
| Debt/enterprise value (%) | 42.7 | 64.8 |