

Financial Definitions

Debt (non-GAAP):

Total debt less 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.

Debt/EBITDA (non-GAAP):

Total debt less transition bonds and debt-related restricted cash divided by EBITDA. Debt/EBITDA is a measure used by management to assess credit quality.

EBITDA (non-GAAP):

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 (non-GAAP):

EBITDA divided by cash interest expense is a measure used by TXU to assess credit quality.

Free Cash Flow (non-GAAP):

Cash provided by operating activities less capital expenditures and nuclear fuel. Used by TXU predominantly as a forecasting tool to estimate cash available for dividends, debt reduction, and other investments.

Normalized Free Cash Flow (non-GAAP):

Cash provided by operating activities, adjusted for unusual or nonrecurring items, less capital expenditures and nuclear fuel. Used by TXU predominantly as a forecasting tool to estimate cash available for dividends, debt reduction, and other investments.

Normalized Operating Cash Flow (non-GAAP):

Cash provided by operating activities adjusted for unusual or nonrecurring items. Used by TXU predominantly as a forecasting tool to estimate cash available for capital expenditures, nuclear fuel, dividends, debt reduction, and other investments.

Operational Earnings (non-GAAP):

Income from continuing operations net of preference stock dividends and excluding special items. 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 (non-GAAP):

Per share (diluted) income from continuing operations available for common stock and excluding special items. Operational earnings per share in 2005 also excludes the unfavorable effect of the accelerated common stock repurchase (ASR) program and in 2004 also excludes the unfavorable effect of the exchangeable preferred membership interest buyback premium and includes the dilution effects of the convertible senior notes and other items.

Return on Invested Capital Based on Adjusted Operational Earnings (non-GAAP):

Twelve months ended operational earnings (non-GAAP), 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. This measure is used to evaluate operational performance and management effectiveness.

Total Debt (GAAP):

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 (EPMI).

Special Items (non-GAAP):

Unusual charges related to the implementation of the performance improvement program and other charges, credits, or gains that are unusual or nonrecurring. The performance improvement program was implemented in phases, and the majority of charges associated with the program occurred in 2004. 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	2005	2005	2004	2004	2003	2003
Net income (loss) available for common stock	1,712	2.50	(386)	(0.64)	560	0.81
Income from discontinued operations, net of tax effect	(5)	(0.01)	(378)	(0.63)	(74)	(0.10)
Extraordinary (gain) loss, net of tax effect	50	0.10	(16)	(0.03)	–	–
Cumulative effect of changes in accounting principles, net of tax effect	8	0.02	(10)	(0.02)	58	0.08
Exchangeable preferred membership interest buyback premium	–	–	849	1.41	–	–
Preference stock dividends	10	0.02	22	0.04	22	0.03
Income from continuing operations¹	1,775	2.63	81	0.13	566	0.82
Operations subsequently discontinued, principally TXU Gas and TXU Australia	–	–	–	–	171	0.22
Effect of ASR true-up	–	1.02	–	–	–	–
Effect of share dilution/rounding	–	0.01	–	0.03	–	–
Preference stock dividends	(10)	(0.02)	(22)	(0.04)	(22)	(0.03)
Special items	(150)	(0.31)	828	1.29	–	–
Operational earnings	1,615	3.33	887	1.41	715	1.01

Return on Average Invested Capital (ROIC)	2005	2004	2003²	2003³
Net income	1,722	485	582	582
After-tax interest expense and related charges*	490	434	605	486
Total return (on net income)	2,212	919	1,187	1,068
Operational earnings	1,615	887	715	544
Preference stock dividends	10	22	22	22
After-tax interest expense and related charges*	490	434	605	486
Total return (on operational earnings)	2,115	1,343	1,342	1,052
Average total capitalization	13,692	16,019	20,496	18,831
ROIC – based on adjusted net income (%)	16.2	5.7	5.7	5.7
ROIC – based on adjusted operational earnings (%)	15.4	8.4	6.5	5.6

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

Interest expense and related charges	802	695	975	784
Interest income	(48)	(28)	(44)	(36)
Net	754	667	931	748
Tax at 35%	(264)	(233)	(326)	(262)
Net of tax	490	434	605	486

Interest and Debt Coverage Ratios	2005	2004	2003²	2003³
Cash provided by operating activities	2,793	1,758	2,798	2,413
Reconciling adjustments from cash flow statement	(1,018)	(1,677)	(2,061)	(1,847)
Income from continuing operations¹	1,775	81	737	566
Income tax expense	632	42	314	252
Interest expense and related charges	802	695	975	784
Interest income	(48)	(28)	(44)	(36)
Depreciation and amortization	776	760	886	724
EBITDA	3,937	1,550	2,868	2,290
Special items	(18)	1,190	–	–
EBITDA (excluding special items)	3,919	2,740	2,868	2,290
Interest expense and related charges	802	695	975	784
Amortization of debt discount and issuance expense	(18)	(27)	(39)	(31)
Capitalized interest	17	12	12	12
Cash interest expense	801	680	948	765
Total debt	13,380	12,889	14,403	12,590
Transition bonds	(1,167)	(1,258)	(500)	(500)
Debt-related restricted cash	–	–	(525)	(525)
Total debt less transition bonds and debt-related restricted cash	12,213	11,631	13,378	11,565
EBITDA/interest (ratio)	4.9	4.0	3.0	3.0
Debt/EBITDA (ratio)	3.1	4.2	4.7	5.1
Cash provided by operating activities + cash interest expense/cash interest expense (ratio)	4.5	3.6	4.0	4.2
Total debt/cash flow from operating activities (ratio)	4.8	7.3	5.1	5.2

Normalized Operating and Free Cash Flow	2005	2004	2003²	2003³
Cash provided by operating activities	2,793	1,758	2,798	2,413
Special items	109	284	–	–
2003 tax refund	–	–	(601)	(601)
2002 collections in 2003	–	–	(337)	(337)
Normalized operating cash flow	2,902	2,042	1,860	1,475
Capital expenditures	(1,047)	(912)	(956)	(721)
Nuclear fuel	(57)	(87)	(44)	(44)
Normalized free cash flow	1,798	1,043	860	710

¹ Before extraordinary items and cumulative effect of changes in accounting principles.

² As originally reported, which includes operations subsequently discontinued, principally TXU Gas and TXU Australia.

³ Reclassified for discontinued operations in accordance with GAAP.