

FINANCIAL DEFINITIONS

Cash Interest Expense (non-GAAP):

Interest expense and related charges less amortization of discount and reacquired debt expense plus capitalized interest. Cash interest expense is a measure used by TXU to assess credit quality.

Debt (non-GAAP):

Total debt less transition bonds and debt-related 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. 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 TXU 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.

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):

Net income available to common shareholders adjusted for special items and income or losses that are not reflective of continuing operations (such as discontinued operations, extraordinary items, and cumulative effect of changes in accounting principles). Beginning in the fourth quarter of 2006, TXU has adjusted operational earnings for all periods to exclude all effects of recording unrealized gains and losses from cash flow hedge ineffectiveness and other mark-to-market valuations of positions in the long-term hedging program because management believes such presentation will more appropriately reflect the ongoing earnings of the business. 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) operational earnings. TXU forecasts earnings on such operational earnings basis and is unable to reconcile forecasted operational earnings to a GAAP financial measure because forecasts of special items and material nonrecurring items are not practical. TXU relies on operational earnings per share 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.

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

Twelve months ended operational earnings (non-GAAP) plus preference stock dividends and after-tax interest expense and related charges less interest income 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.

Special Items (non-GAAP):

Unusual charges related to the implementation of the performance improvement program, the effects of unrealized gains and losses from cash flow hedge ineffectiveness and other mark-to-market valuations of positions in the long-term hedging 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.

Total Debt (GAAP):

Long-term debt (including current portion) plus bank loans and commercial paper plus long-term debt held by subsidiary trusts and preferred securities of subsidiaries.

REGULATION G RECONCILIATIONS

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

	2006	2006	2005	2005	2003	2003
Operational Earnings						
Net income (loss) available for common stock	2,552	5.46	1,712	2.50	560	0.81
Income from discontinued operations, net of tax effect	(87)	(0.19)	(5)	(0.01)	(74)	(0.10)
Extraordinary loss, net of tax effect	–	–	50	0.10	–	–
Cumulative effect of changes in accounting principles, net of tax effect	–	–	8	0.02	58	0.08
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	–	–	–	–
Special items	127	0.27	(137)	(0.28)	–	–
Operational earnings	2,592	5.55	1,628	3.35	715	1.01
Return on Average Invested Capital (ROIC)						
Net income	2,552	1,722	582	582		
After-tax net interest expense and related charges*	510	490	605	486		
Total return (on net income) (a)	3,062	2,212	1,187	1,068		
Operational earnings	2,592	1,628	715	544		
Preference stock dividends	–	10	22	22		
After-tax net interest expense and related charges*	510	490	605	486		
Total return (on operational earnings) (b)	3,102	2,128	1,342	1,052		
Average total capitalization (c)	14,301	13,692	20,496	18,831		
ROIC based on adjusted net income (%) (a) / (c)	21.4	16.2	5.8	5.7		
ROIC based on adjusted operational earnings (%) (b) / (c)	21.7	15.5	6.5	5.6		
* After-tax net interest expense and related charges:						
Interest expense and related charges	830	802	975	784		
Interest income	(46)	(48)	(44)	(36)		
Net	784	754	931	748		
Tax at 35%	(274)	(264)	(326)	(262)		
Net of tax	510	490	605	486		
Interest and Debt Coverage Ratios						
Cash provided by operating activities	4,954	2,793	2,798	2,413		
Reconciling adjustments from cash flow statement	(2,489)	(1,018)	(2,061)	(1,847)		
Income from continuing operations ³	2,465	1,775	737	566		
Income tax expense	1,263	632	314	252		
Interest expense and related charges	830	802	975	784		
Interest income	(46)	(48)	(44)	(36)		
Depreciation and amortization	830	776	886	724		
EBITDA	5,342	3,937	2,868	2,290		
Special items	127	2	–	–		
EBITDA (excluding special items) (d)	5,469	3,939	2,868	2,290		
Interest expense and related charges	830	802	975	784		
Amortization of debt discount and issuance expense	(16)	(18)	(39)	(31)		
Capitalized interest	47	17	12	12		
Cash interest expense (e)	861	801	948	765		
Total debt	12,607	13,380	14,403	12,590		
Transition bonds	(1,074)	(1,167)	(500)	(500)		
Debt-related restricted cash	(241)	–	(525)	(525)		
Debt (f)	11,292	12,213	13,378	11,565		
EBITDA/interest (ratio) (d) / (e)	6.4	4.9	3.0	3.0		
Debt/EBITDA (ratio) (f) / (d)	2.1	3.1	4.7	5.1		
Cash provided by operating activities + cash interest expense/cash interest expense (ratio)	6.8	4.5	4.0	4.2		
Total debt/cash flow from operating activities (ratio)	2.5	4.8	5.1	5.2		
Normalized Operating and Free Cash Flow						
Cash provided by operating activities	4,954	2,793	2,798	2,413		
Special items	22	109	–	–		
2003 tax refund	–	–	(601)	(601)		
2002 collections in 2003	–	–	(337)	(337)		
Normalized operating cash flow	4,976	2,902	1,860	1,475		
Capital expenditures	(2,180)	(1,047)	(956)	(721)		
Nuclear fuel	(117)	(57)	(44)	(44)		
Normalized free cash flow	2,679	1,798	860	710		

¹ As originally reported, which includes operations subsequently discontinued, principally TXU Gas and TXU Australia.

² Reclassified for discontinued operations in accordance with GAAP.

³ Before extraordinary items and cumulative effects of changes in accounting principles.