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RATED: HOLD

TXU Corporation
(NYSE-TXU -\$52)

Preliminary Thoughts on Potential Sale of Delivery Business

Balance Sheet: Table 1 is lifted from our November 18, 2005 TXU report. The table lists the capital structures as of September 30, 2005 of Energy (column 1), Delivery (column 2), the combined Energy and Delivery (column 3), inter-company eliminations and the effect of write-downs in Europe and Australia (column 4). Asset write-downs create a huge double leverage component to earnings. In 2004, for example, the combined energy and delivery businesses earned a return on common of 12.3%, while the consolidated return on common was 198.8%. Delivery alone (our June 8th 2005 report) earned an 8% return on common equity (Table 4).

The break down of the asset base is particularly relevant if speculation over the spin off and possible sale of a 49% interest in the delivery business becomes reality. We haven't seen the detailed year-end balance sheets for TXU separate businesses. So consider these comments as back of the envelope.

Table 1
 Comparative Capitalization and Book Values
 September 30, 2005

Column	(1)	(2)	(3)	(4)	(5)
	Energy	Delivery	Energy & Delivery	Other & Eliminations	Consolidated
	\$-millions	\$-millions	\$-millions	\$-millions	\$-millions
Capitalization (9/30/05)					
Total Debt	3,792	4,369	8,161	5,234	13,395
Preferred & Preference	0	0	0	0	0
Common Equity	4,083	3,020	7,103	(6,279)	824
Total	7,875	7,389	15,264	(1,045)	14,219
Capital Structure % Total					
Total Debt	48.2	59.1	53.5	(500.9)	94.2
Preferred & Preference	0.0	0.0	0.0	0.0	0.0
Common Equity	51.8	40.9	46.5	600.9	5.8
Total	100.0	100.0	100.0	100.0	100.0
Shares millions	488	488	488	488	488
Book Value	8.37	6.19	14.56	(12.87)	1.69

Delivery business as of September 30, 2005 had a book of \$3,020 million, or a book of \$6.19 a share based on 488 million shares outstanding (actual year-end shares were 485 million). The speculation is that the purchase could approximate \$5 billion or more. Lets assume the spin off occurs and (General Electric and/or Australia' s Macquarie) buys a 49% interest for \$5 billion (230% premium over half the book).

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The initial impact of divestiture has consolidated common equity turning a negative \$4.50 a share (\$2,196 million).

Table 2
TXU Consolidated
Excluding Delivery
As of September 30, 2005

Column	(1)	(2)	(3)	(4)	(5)
Pro forma (9/30/05) Capitalization	Energy \$-millions	Other & Eliminations \$-millions	Consolidated \$-millions	Adjustments Sale \$-millions	Pro Forma \$-millions
Total Debt	3,792	5,234	9,026		9,026
Preferred & Preference	0	0	0		0
Common Equity	4,083	(6,279)	(2,196)	(5,000)	(7,196)
Total	7,875	(1,045)	6,830		1,830
Capital Structure % Total					
Total Debt	48.2	(500.9)	132.2		493.2
Preferred & Preference	0.0	0.0	0.0		0.0
Common Equity	51.8	600.9	(32.2)		(393.2)
Total	100.0	100.0	100.0		100.0
Shares millions	488	488	488	(96)	392
Book Value	8.37	(12.87)	(4.50)		(18.36)

If we assume 49% of delivery is sold for \$5 billion and TXU management opts to buy back common stock, shares outstanding decline by 96 million (\$5.0 billion divided by \$52 a share) and consolidated book declines to a negative \$18.36 a share.

Earnings: Operating guidance mid-point is \$5.63 a share for 2006, up from \$3.33 a share in 2005 and \$5.75 a share for 2007. Our theoretical transaction would have TXU Energy earnings (assuming delivery profits remain in the \$280 million area) declining in half to \$140 million. Our assumptions have earnings accretion work out to 18%.

Table 3
Earnings Accretion

	2006	2007
Earnings	5.63	5.75
Pre Sale Shares	488	488
Earnings \$millions	2,747	2,806
Loss of Delivery Profits	140	140
Adjusted Earnings	2,607	2,666
Share back @\$52 a share	(96)	(96)
Pro Forma Shares	392	392
Pro Forma Earnings	6.65	6.80
% Accretion	18%	18%

(Continued)

(Continued)

Table 4
Return on Year-end Book Value
(12/31/04)

Column	(1)	(2)	(3)	(4)	(5)
Capitalization (12/31/04)	Energy	Delivery	Energy & Delivery	Consolidated	Other & Eliminations
Notes	210		210	210	0
Long Term Debt Current	31	182	213	229	16
Long term debt	3,226	4,199	7,425	12,412	4,987
Commodity Contracts Net	(23)		(23)	(23)	0
Total Debt	3,444	4,381	7,825	12,828	5,003
Preferred Stock	511	0	511	338	(173)
Common Equity	3,572	2,687	6,259	339	(5,920)
Total Capitalization	7,527	7,068	14,595	13,505	(1,090)
Shares Outstanding	239	239	239	239	239
Book Value	14.95	11.24	26.19	1.42	(24.77)
Capital Structure					
Debt	45.8	62.0	53.6	95.0	(459.0)
Preferred	6.8	0.0	3.5	2.5	15.9
Common Equity	47.5	38.0	42.9	2.5	543.1
Total	100.0	100.0	100.0	100.0	100.0
Operational Earnings	2.33	0.90	3.23	2.82	(0.41)
Return on Year-end Book	15.6%	8.0%	12.3%	198.8%	1.7%

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Range of Formal Recommendations 15 total 1-buy-13-holds-1 sell

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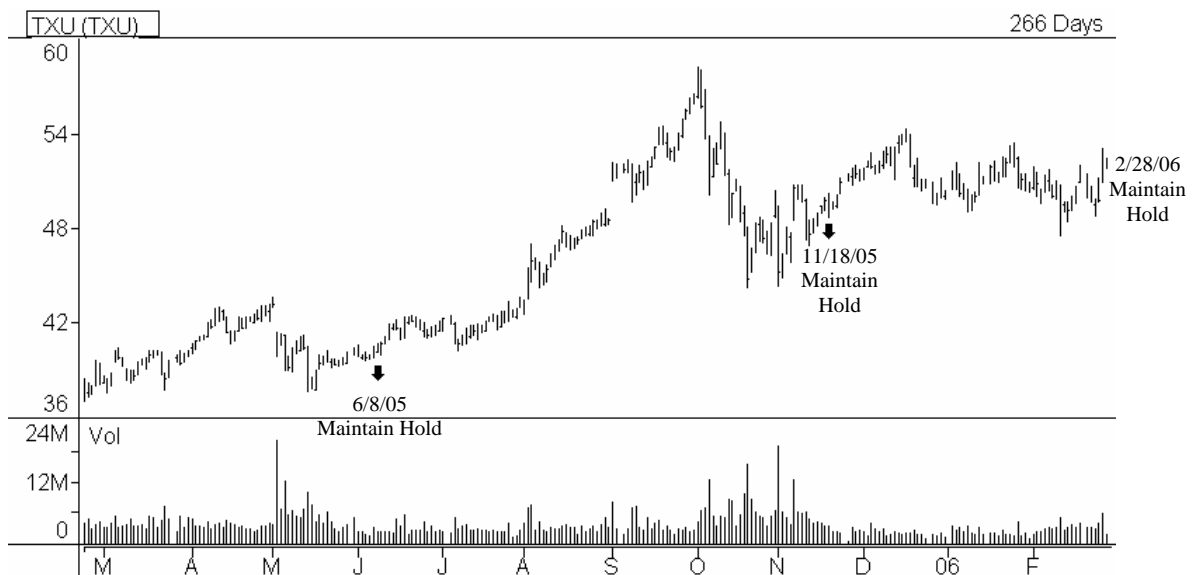
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