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April 4, 2007

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TXU Corporation
(NYSE-\$64-Hold)
KKR/TPG Power & Light

Price (intraday)	4/3						
52-week range	64				Price	Y-t-d	12 Mos.
Book 12/31/06	68-44				4/3	%	%
	4.65	1366%	P/book	Performance			
Operating Earnings				TXU Corp.	64	17	38
2005	3.55	17.9		Phil. Elect. Index	545	11	30
2006	5.55	11.5		Dow Industrials	12,510	0	12
2007 Consensus	5.33	11.9		Analyst Coverage	14		
2008 Consensus	5.21	12.2		Buys	3		
				Shares (millions)	459		
Dividend	1.73	2.7%	Yield	Equity Value (\$ Bil.)	29		

Au Revoir TXU

TXU's April 2nd release stated that Kohlberg Kravis Roberts (KKR) and TPG's (formerly Texas Pacific Group) \$31.8 billion cash offer plus assumption of \$12.6 billion of debt is unlikely to be exceeded, eliminating what some hoped would be a bidding war. The transaction is expected to close in the second half of 2007 although fallout from consumer outcry over electric rates and an angry legislature may delay completion into 2008. Since the bid was announced, the legislature introduced a bill requiring Public Utility Commission (PUC) to review any acquisitions and has accused the company of manipulating energy prices.

In reality, the investor group should have anticipated resistance, particularly since electric rates are a hot button issue and the announcement was made while the Texas legislature was in session. Moreover, LBO investors are perceived as high risk/ high reward with investment horizons that may not coincide with the business cycles of energy/utility companies. Typical LBO strategy is to buy assets, improve profitability, and sell assets to pay down debt and generate returns.

KKR/TPG in an attempt to ease concerns over credit risk and premature asset sales agreed not to pile on debt in the regulated Delivery business and retain a majority stake (50.1%-our emphasis) for a minimum of five years. We're not clear if the pledge applies to the company's non-regulated assets that provide over 90% of earnings. Even so, the pledge leaves open the possibility of selling \$16 billion (half the equity purchase price) in assets within five years and an additional \$16 billion in five years and one day. According to the press "people close to the deal" indicate that KKR/TPG plans to sell 20% of Delivery at closing.

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Non-regulated nuclear (2300 megawatts) and lignite (5837 megawatts) generation are what attracted KKR/TPG. Coal and nuclear generation are characterized as having high fixed and low variable costs. By contrast in the ERCOT power pool, natural gas generation with low fixed and high variable costs accounts for 50% of output. High gas prices mean high profit margins for base load coal and nuclear. So KKR/TPG's ecologically lauded decision to cancel eight coal units served the dual purpose of supporting natural gas prices and keeping the "greens" happy.

Non-regulated Energy earned a 54% return on equity in 2006 and accounted for 93% of the consolidated \$5.46 a share. Delivery is fully regulated with profits derived from a commission-approved access charge to enter its distribution and transmission network. Delivery earnings of \$0.74 a share represented a 12% return on year-end common. Inter subsidiary eliminations totaled \$0.33 a share.

The unlikelihood of a competitive bid dampened speculative enthusiasm in the shares. TXU's current \$63-\$64 a share price compares to \$57 a share on February 22, 2007 (before speculation of a takeover) and represents a 7.5% discount to the \$69.25 a share offer.

TXU Profile

Consolidated book of \$2,140 million at year-end is net of writedowns in Europe, Australia, Telecommunications and decisions to exit the Fuel, and Natural Gas businesses. Book value represented by the \$31.8 billion bid is \$9,707 million; Energy Holdings - \$6,732 million and Delivery - \$2,975 million.

Table 1
Capitalization Profile - 2006

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Delivery \$-Mil. (1)	Energy \$-Mil. (2)	Develop. \$-Mil. (3)	Holdings \$-Mil. (2+3)	Hold+Del \$-Mil. (4+1)	Eliminations \$-Mil. (7-5)	Consolidated \$-Mil. (7)
Net Plant	7,608	9,888	1,135	11,023	18,631	125	18,756
Capitalization							
Debt	4,781	3,054	913	3,967	8,748	3,882	12,630
Common	2,975	6,653	79	6,732	9,707	(7,567)	2,140
Total	7,756	9,707	992	10,699	18,455	(3,685)	14,770
Capital Structure							
Debt	62	31	92	37	47	(105)	86
Equity	38	69	8	63	53	205	14
Total	100	100	100	100	100	100	100

Source 10Ks

Consolidated Forecast

Table 2 profiles the five-year outlook for TXU Corporation on both a stand-alone and pro forma basis. Earnings estimates are taken from the management presentations at the Edison Electric Institute Financial Forum in November 2006, less the announced deal associated \$300 million rate cut covering the March 2007-September 2008 period. Construction estimates are best guesses following cancellation of all but three of eleven planned coal-fired generating plants, and after reviewing company presentations and reading the 2006 10Ks.

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Stand-alone: Our stand-alone scenario has a rapidly improving credit matrix. Cash flow exceeds investment each year and outstanding debt declines from \$12.6 billion at 2006 year-end to \$5.9 billion in year 5. Interest coverage increases from 5.6 times to 12.9 times, cash flow coverage of interest from 6.7 times to 14.8 times and cash flow as a percent of debt outstanding from 44% to 115%.

Pro Forma: Pro forma estimates assume the purchase price of \$31.8 billion has a 7.5% cost. Interest expense increases by \$2,385 million annually. Capital needs almost equal cash flow until year 4. Interest coverage drops to 1.4 times in year 1, cash flow coverage to 1.7 times and cash flow as a percent of debt to 12%. We assume hedging techniques will minimize variances caused by declines in gas prices in the initial years, although unplanned outages of long duration could prove significant.

Sale of Delivery: Speculation that KKR/TPG may sell 20% of Delivery at closing makes sense. Delivery's returns are modest and probably below the group's return objective. But its cash flows are highly predictable, making calculation of discounted returns reliable and proceeds would ease any near-term cash squeeze. Delivery capitalization of \$7,756 million includes \$4,781 million of assumed debt and \$2,975 million of equity. Sale of 20% equity (\$595 million year-end book) at two times book (a guess) would total \$1,190 million. On that basis the sale of another 30% within five years could provide another \$1,785 million.

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Table 2
Profile - TXU Corporation
Pro Forma Consolidated
(\$-Millions)

Column	Alone	Pro Forma				
	(1) 2006 Act.	(2) Year 1	(3) Year 2	(4) Year 3	(5) Year 4	(6) Year 5
Stand-Alone Earnings Per Share	5.46	5.13	5.33	6.50	7.00	7.80
Earnings	2,552	2,355	2,445	2,984	3,213	3,580
Tax Rate	33%	35%	35%	35%	35%	35%
Pre Tax Income	3,830	3,623	3,761	4,590	4,943	5,508
Depreciation & Amortization	893	900	900	900	900	900
Cash Flow Available for Investing	3,445	3,255	3,345	3,884	4,113	4,480
Investing & Other Capital Needs	2,664	2,249	3,029	3,079	2,206	1,866
Net Cash	781	1,006	316	804	1,907	2,614
Interest Expense	830	772	730	695	608	464
Debt Outstanding Year-end	12,630	11,624	11,309	10,504	8,597	5,983
Average Debt Outstanding	13,033	12,127	11,467	10,907	9,551	7,290
Financing		(906)	(661)	(560)	(1,356)	(2,261)
Embedded Debt	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Credit Measurements						
Interest coverage	5.61	5.69	6.15	7.61	9.13	12.86
Cash Flow Coverage -Interest	6.69	6.86	7.38	8.90	10.61	14.80
Cash Flow Interest % Year end Debt	44%	46%	48%	59%	75%	115%

Purchase as of 12/31/07

Purchase Price		31,807	31,807	31,807	31,807	31,807
Implied Interest Rate for Purchase		7.50%	7.50%	7.50%	7.50%	7.50%
Stand-alone Interest Expense	830	772	730	695	608	464
Acquisition Interest		2,385	2,385	2,385	2,385	2,385
Pro Forma Interest		3,158	3,116	3,080	2,994	2,850
Change in Interest		2,328	2,286	2,250	2,164	2,020
Pro Forma Pre Tax Income	3,830	1,295	1,475	2,340	2,779	3,488
Depreciation & Amortization		900	900	900	900	900
Cash Flow Available for Investing		2,195	2,375	3,240	3,679	4,388
Investing & Other Capital Needs		2,249	3,029	3,079	2,206	1,866
Net Cash		(54)	(654)	161	1,474	2,523
Debt Outstanding Year-end	12,630	44,491	45,145	44,984	43,510	40,987
Average Debt Outstanding	13,033		44,818	45,064	44,247	42,249
Credit Measurements						
Interest coverage		1.41	1.47	1.76	1.93	2.22
Cash Flow Coverage -Interest		1.70	1.76	2.05	2.23	2.54
Cash Flow Interest % Year end Debt		12%	12%	14%	15%	18%
Cash Flow Interest % Average Debt			12%	14%	15%	17%

Source: Shields Estimates

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other TXU Corporation reports issued by me are: 2/2/05 (\$72.62) – Hold, 6/8/05 (\$81) – Hold, 11/18/05 (\$50) – Hold, 2/28/06 (\$52) – Hold, 5/4/06 (\$56) - Hold.

Important Disclosures

Guide to Investment Ratings:

Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy	12%	0%
Hold	82%	0%
Sell	6%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



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