

TXU CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business — TXU Corp. is a holding company conducting its operations principally through its TXU Energy Holdings and TXU Electric Delivery subsidiaries. TXU Energy Holdings is engaged in electricity generation, residential and business retail electricity sales as well as wholesale energy markets activities, largely in Texas. TXU Electric Delivery is engaged in regulated electricity transmission and distribution operations in Texas.

TXU Corp. has two reportable segments: TXU Energy Holdings and TXU Electric Delivery. (See Note 17 for further information concerning reportable business segments.)

Basis of Presentation — The consolidated financial statements of TXU Corp. have been prepared in accordance with accounting principles generally accepted in the US and on the same basis as the audited financial statements included in its 2004 Form 10-K/A, except for the changes in composite depreciation rates discussed below under “Property, Plant and Equipment.” All other adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. All intercompany items and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated.

Stock Split — All share and per share amounts reflect a two-for-one stock split completed in December 2005.

Discontinued Businesses — Note 4 presents detailed information regarding the TXU Australia, TXU Gas and other discontinued businesses. The consolidated financial statements for all periods presented reflect the reclassification of the results of these businesses as discontinued operations.

Use of Estimates — Preparation of TXU Corp.’s financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense, including mark-to-market valuation adjustments. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments, other than those disclosed elsewhere herein, were made to previous estimates or assumptions during the current year.

Earnings Per Share — Basic earnings per share available to common shareholders are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share include the effect of all potential issuances of common shares under stock-based employee compensation and convertible debt arrangements. The 2005 diluted per share results reflect a \$1.02 per share unfavorable impact associated with the November 2004 accelerated share repurchase program which was settled in May 2005. The program is discussed in Note 8. Because TXU Corp. intended to settle in cash the difference between the initial price of the shares and the actual costs of the shares purchased by the counterparty under the program, accounting rules require that earnings used in the diluted earnings per share calculation be reduced by the change in the fair value of the settlement liability during the year, which totaled \$498 million (without tax benefit).

In 2004, results from continuing operations before extraordinary items and cumulative effect of changes in accounting principles, net of the exchangeable preferred membership buyback premium (\$849 million – See Note 8) and preference dividends represented a loss. Consequently, consideration of potential common share issuances results in antidilution, and basic earnings per share is equal to diluted earnings per share.

Derivative Instruments and Mark-to-Market Accounting — TXU Corp. enters into contracts for the purchase and sale of energy, and also enters into other derivative instruments such as options, swaps, futures and forwards primarily to manage commodity price and interest rate risks. If the instrument meets the definition of a derivative under SFAS 133, the fair value of each derivative is required to be recognized on the balance sheet as a derivative asset or liability and changes in the fair value recognized in net income, unless the criteria for certain exceptions are met. This recognition is referred to as “mark-to-market” accounting. Under the exception criteria of SFAS 133, TXU Corp. may elect the “normal” purchase and sale exemption; further, TXU Corp. may designate derivatives as a cash flow or fair value hedge. A derivative contract may be designated as a “normal” purchase or sale if the intent is to physically receive or deliver the product for use or sale in the normal course of business. If designated as normal, the derivative is not marked-to-market.

A cash flow hedge mitigates the risk associated with variable future cash flows (e.g., a forecasted sale of power in the future at market prices), while a fair value hedge mitigates risk associated with fixed future cash flows (e.g., debt with fixed interest rate payments). In accounting for cash flow hedges, derivative assets and liabilities are recorded on the balance sheet at fair value with an offset in other comprehensive income to the extent the hedges are effective. Amounts remain in other comprehensive income, unless the underlying transactions become probable of not occurring, and are reclassified into net income as the underlying transactions (hedged items) settle and affect earnings. Fair value hedges are recorded as derivative assets or liabilities with an offset to net income, and the carrying value of the underlying asset or liability (hedged item) is adjusted for the change in fair value with an offset to net income. If the fair value hedge is settled prior to the maturity of the hedged item, the cumulative fair value gain or loss is amortized into income over the remaining life of the hedged item. To qualify for hedge accounting, a hedge must be considered highly effective in offsetting changes in fair value of the hedged item. Assessment of the hedge’s effectiveness is tested at least quarterly throughout its term to continue to qualify for hedge accounting. Hedge ineffectiveness, even if the hedge continues to be assessed as effective, is recognized in net income in the current period. Ineffectiveness is generally measured as the cumulative excess, if any, of the change in value of the hedging instrument over the change in value of the hedged item. The “short-cut” method under SFAS 133 allows entities to assume no hedge ineffectiveness in a hedging relationship of interest rate risk if certain conditions are met. If all short-cut conditions are met, then the hedge results in no ineffectiveness gains and losses, as the hedge is considered 100% effective, and no future effectiveness testing is required. See Notes 7 and 15 for additional details concerning hedging activity.

Revenue Recognition — TXU Corp. records revenue from electricity sales and delivery service under the accrual method of accounting. Revenues are recognized when electricity or delivery services are provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value provided from the meter reading date to the end of the period (unbilled revenue).

Realized and unrealized gains and losses from transacting in energy-related instruments, principally for the purpose of hedging margins on sales of energy, are reported as a component of revenues. Gains and losses are defined as realized when a transaction is settled. Mark-to-market gains and losses are termed unrealized. See discussion above under “Derivative Instruments and Mark-to-Market Accounting.”

Accounting for Contingencies — The financial results of TXU Corp. may be affected by judgments and estimates related to loss contingencies. Accruals for loss contingencies are recorded when management determines that it is probable that an asset has been impaired or a liability has been incurred and that such economic loss can be reasonably estimated. Such determinations are subject to interpretations of current facts and circumstances, forecasts of future events and estimates of the financial impacts of such events.

Regulatory Assets and Liabilities — The financial statements of TXU Corp.’s regulated electricity delivery operations reflect regulatory assets and liabilities under cost-based rate regulation in accordance with SFAS 71. The assumptions and judgments used by regulatory authorities continue to have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates. (See discussion in Note 16).

See Note 5 for a discussion of the extraordinary gain recorded in 2004 related to the adjustment in the carrying value of TXU Corp.’s regulatory asset subject to securitization.

Investments — Deposits in a nuclear decommissioning trust fund are carried at fair value in the balance sheet. Investments in unconsolidated business entities over which TXU Corp. has significant influence but does not maintain effective control, generally representing ownership of at least 20% and not more than 50% of common equity, are accounted for under the equity method. Assets related to employee benefit plans are held to satisfy deferred compensation liabilities and are recorded at market value. (See Note 13).

Property, Plant and Equipment — Properties are stated at original cost. The cost of property additions includes materials and both direct and indirect labor and applicable overhead, including payroll-related costs.

Depreciation of TXU Corp.'s property, plant and equipment is calculated on a straight-line basis over the estimated service lives of the properties. Depreciation includes the effect of asset retirement obligations as prescribed by SFAS 143 and the impacts of FIN 47 (see Note 3), which was adopted by TXU Corp. in 2005. As is common in the industry, TXU Corp. records depreciation expense using composite depreciation rates that reflect blended estimates of the lives of major asset components as compared to depreciation expense calculated on an asset-by-asset basis. Estimated depreciable lives are based on management's estimates of the assets' economic useful life.

Effective January 1, 2005, the estimated depreciable lives of lignite/coal-fired generation facilities were extended from fifty years to sixty years to better reflect their useful lives, resulting in lower (as compared to the 2004 period) depreciation expense for the year ended December 31, 2005 of \$13 million (\$8 million after-tax), or \$0.02 per share.

Effective January 1, 2004, the estimated depreciable lives of lignite-fired generation facilities were extended an average of nine years to better reflect the useful lives of the assets, and depreciation rates for the Comanche Peak nuclear generating plant were decreased as a result of an increase in the estimated lives of boiler and turbine generator components of the plant by an average of five years. The net impact of these changes was a reduction (as compared to the 2003 period) in depreciation expense of \$44 million (\$29 million after-tax, or \$0.05 per share) in 2004.

Effective April 1, 2003, the estimated depreciable lives of the Comanche Peak nuclear generating plant and several gas generation plants were extended to better reflect the useful lives of the assets. At the same time, depreciation rates were increased on lignite and gas generation facilities to reflect investments in emissions control equipment. The net impact of these changes was a reduction (as compared to the 2003 period) in depreciation expense of an additional \$12 million (\$8 million after-tax, or \$0.01 per share) in 2004.

Inventories — Inventories, including environmental energy credits and emission allowances, are carried at weighted average cost. All inventories are reported at the lower of cost or market, unless expected to be used in the generation of electricity.

Allowance For Funds Used During Construction (AFUDC) and Interest Capitalized — AFUDC is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are added to utility plant and equipment being constructed. As a result of the 1999 Restructuring Legislation, only interest has been capitalized related to generation construction since 1999. AFUDC for the regulated business is capitalized as a component of projects involving construction periods lasting greater than thirty days. Interest on qualifying projects for businesses that are not regulated is capitalized in accordance with SFAS 34. The equity portion of capitalized AFUDC is accounted for as other income. See Note 19 for details of amounts.

Impairment of Long-Lived Assets — TXU Corp. evaluates long-lived assets for impairment whenever indications of impairment exist, in accordance with the requirement of SFAS 144. The determination of the existence of indications of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows related to an asset or group of assets.

Major Maintenance — Major maintenance costs related to baseload plant outages, as well as the costs of other major maintenance programs, are charged to expense as incurred.

Amortization of Nuclear Fuel — Amortization of nuclear fuel in the reactors is calculated on the units-of-production method and is reported as fuel costs.

Defined Benefit Pension Plans and Other Postretirement Benefit Plans — TXU Corp. offers pension benefits through either a defined benefit pension plan or a cash balance plan and also offers certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees from TXU Corp. TXU Corp. accounts for pension and other postretirement benefits costs in accordance with SFAS 87 and SFAS 106. Reported costs of providing noncontributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates. (See Note 12 for information regarding retirement plans and other postretirement benefits).

Stock-Based Compensation — TXU Corp. grants awards of restricted stock and performance units distributed in stock. Stock-based compensation expense for periods subsequent to 2003 is determined based on the provisions of SFAS 123R, which provides for the recognition of stock-based compensation expense over the vesting period based on the grant-date fair value of those awards. Under the previous accounting rule (APB 25), expense to be recognized over the vesting period was remeasured each reporting period based on the current market price of the stock and the assumed number of shares distributable given the share price performance to date. See Note 10.

Franchise and Revenue-Based Taxes — Franchise and gross receipt taxes are not a “pass through” item such as sales and excise taxes. These taxes are assessed to TXU Corp. by state and local government bodies, based on revenues or kWh delivered, as a cost of doing business and are recorded as an expense. Rates charged to customers by TXU Corp. are intended to recover the taxes, but TXU Corp. is not acting as an agent to collect the taxes from customers.

Income Taxes — TXU Corp. files a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based on their respective taxable income or loss. Investment tax credits are amortized to income over the estimated lives of the properties. Deferred income taxes are provided for temporary differences between the book and tax basis of assets and liabilities. Certain provisions of SFAS 109 provide that regulated enterprises are permitted to recognize deferred taxes as regulatory tax assets or tax liabilities if it is probable that such amounts will be recovered from, or returned to, customers in future rates.

TXU Corp. accounts for positions taken on tax returns based on the probable liability approach consistent with SFAS 5.

Cash Equivalents — For purposes of reporting cash and cash equivalents, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents.

Changes in Accounting Standards — There are no recently issued accounting standards effective after December 31, 2005 that are expected to materially impact TXU Corp.

2. RESTRUCTURING ACTIONS IN 2004

During 2004, senior management reviewed TXU Corp.'s operations and implemented a restructuring plan to restore financial strength, drive performance improvement with a competitive industrial company perspective and allocate capital in a disciplined and efficient manner.

The restructuring actions included dispositions of businesses, repurchases of debt and other securities, rationalization of generation assets, termination of uneconomic contractual arrangements, headcount reductions, outsourcing of support activities and resolution of litigation, income tax and other contingencies.

The restructuring activities resulted in unusual charges and credits impacting 2004 income from continuing operations, summarized as follows and discussed below in more detail:

	Income Statement Classification	Charge/(Credit) to Earnings	
		Pretax	After-tax
TXU Energy Holdings segment:			
Charges related to leased equipment.....	Other deductions	\$ 180	\$ 117
Software write-off	Other deductions	107	70
Employee severance costs	Other deductions	107	69
Power purchase contract termination charge	Other deductions	101	66
Spare parts inventory write-down	Other deductions	79	51
Outsourcing transition costs	Other deductions	10	6
Other asset impairments	Other deductions	6	4
Other charges	Operating costs/SG&A	8	6
Recognition of deferred gain on plant sales.....	Other income	(58)	(38)
Gain on sale of undeveloped properties	Other income	(19)	(12)
TXU Electric Delivery segment:			
Employee severance costs	Other deductions	20	13
Cities rate settlement charge.....	Other deductions	21	14
Outsourcing transition costs	Other deductions	4	3
Software write-off and asset impairment	Other deductions	4	2
Other charges	Operating costs/SG&A	2	1
Corporate and other:			
Debt extinguishment losses	Other deductions	416	382
Litigation accrual.....	Other deductions	86	56
Executive compensation	SG&A	52	52
Consulting and professional fees.....	SG&A	54	35
Employee severance costs	Other deductions	5	3
Other charges	Other deductions	5	3
Recognition of income tax benefit	Income taxes	—	(75)
Total		<u>\$ 1,190</u>	<u>\$ 828</u>

In addition, income from discontinued operations in 2004 included recognition of \$680 million in tax benefits related to the write-off of the investment in TXU Europe, a net gain of \$241 million after-tax on the sale of TXU Australia, a net charge of \$193 million after-tax on the disposition of TXU Gas, a \$143 million after-tax charge related to the settlement of potential claims related to TXU Europe and a \$17 million after-tax charge related to the disposition of the Pedricktown, New Jersey generation business. See Note 4 for a discussion of these items.

Following is a discussion of major actions associated with the restructuring plan affecting income from continuing operations:

Sale of TXU Fuel

In June 2004, TXU Corp. completed the sale of the assets of TXU Fuel, the former intrastate gas transportation subsidiary of TXU Energy Holdings, for \$500 million in cash. As part of the transaction, TXU Energy Holdings entered into a transportation agreement, intended to be market-price based, with the new owner to transport natural gas to TXU Energy Holdings' generation plants. Because of the continuing involvement in the business through the transportation agreement, the pretax gain related to the sale of \$375 million will be recognized over the eight-year life of the transportation agreement, and the business has not been accounted for as a discontinued operation. The sale of TXU Fuel assets resulted in a capital gain and allowed for recognition of a \$75 million income tax benefit for utilization of a portion of the capital loss deduction arising from the write-off of the investment in TXU Europe.

Capgemini Outsourcing Agreement

In May 2004, TXU Corp. entered into a services agreement with Capgemini Energy LP (Capgemini). Under the ten-year agreement, over 2,500 employees transferred from subsidiaries of TXU Corp. to Capgemini effective July 1, 2004. Outsourced base support services performed by Capgemini for a fixed fee, subject to adjustment for volumes or other factors, include information technology, customer call center, billing, human resources, supply chain and certain accounting activities.

TXU Corp. agreed to indemnify Capgemini for severance costs incurred by Capgemini for former TXU Corp. employees terminated within 21 months of their transfer to Capgemini. Accordingly, TXU Corp. recorded a \$40 million (\$26 million after-tax) charge for severance expense in the second quarter of 2004. (See Note 19 for further details regarding severance liabilities.) In addition, TXU Corp. committed to pay up to \$25 million for costs associated with transitioning the outsourced activities to Capgemini. Transition expenses of \$14 million (\$9 million after-tax) were recorded by TXU Corp. during 2004, and the remainder was expensed as incurred in 2005.

As part of the agreement, Capgemini was provided a royalty-free right, under an asset license arrangement, to use TXU Corp.'s information technology assets, consisting primarily of computer software. A portion of the software was in development and had not yet been placed in service. As a result of outsourcing its information technology activities, TXU Corp. no longer intended to develop the majority of these projects and from TXU Corp.'s perspective the software was abandoned. The agreements with Capgemini do not require that any software in development be completed and placed in service. Consequently, the carrying value of these software projects was written off, resulting in a charge of \$109 million (\$71 million after-tax).

TXU Corp. obtained a 2.9% limited partnership interest in Capgemini in exchange for the asset license described immediately above. See Note 13 for additional discussion of TXU Corp.'s investment in Capgemini and related terms of the agreement.

Actions Related to Generation Operations

In December 2004, TXU Corp. executed an agreement to terminate, for a payment of \$172 million, a power purchase and tolling agreement expiring in 2006. The agreement had been entered into in connection with the sale of two generation plants to the counterparty in 2001. As a result of the transaction, TXU Corp. recorded a charge of \$101 million (\$66 million after-tax). The charge represents the payment amount less the remaining out-of-the-money liability related to the agreement originally recorded at its inception. TXU Corp. also recorded a gain of \$58 million (\$38 million after-tax), representing the remaining deferred gain from the sale of the two plants.

Also in December 2004, TXU Corp. committed to immediately cease operating for its own benefit nine leased gas-fired combustion turbines, and recorded a charge of \$157 million (\$102 million after-tax). The charge represented the present value of the future lease payments related to the turbines, net of estimated sublease proceeds. A \$16 million net credit was recorded in 2005 adjusting the impairment loss recorded in 2004 to reflect actual sublease proceeds under the terms of a contract signed in 2005 with a third party.

In October 2004, TXU Corp. entered into an agreement to terminate the operating lease for certain mining equipment for approximately \$28 million in cash, effective November 1, 2004. The lease termination resulted in a charge of \$21 million (\$14 million after-tax).

As part of a review of its generation asset portfolio in the second quarter of 2004, TXU Corp. completed a review of its spare parts and equipment inventory to determine the appropriate level of such inventory. As a result of this review, TXU Corp. recorded a charge of \$79 million (\$51 million after-tax), to reflect excess inventory on hand and to write down carrying values to scrap values.

TXU Corp. recorded charges totaling \$15 million (\$10 million after-tax) in 2004 for employee severance costs and impairments related to the closures of a number of gas-fired generation units.

Organizational Realignment and Headcount Reductions

During 2004, management completed a comprehensive organizational review, including an analysis of staffing requirements. As a result, TXU Corp. completed a self-nomination severance program and other involuntary severance actions, and recorded severance charges totaling \$77 million (\$49 million after-tax).

Liability and Capital Management

TXU Corp. utilized cash proceeds from the sale of TXU Australia, TXU Gas and TXU Fuel and other assets sales as well as cash provided from operations and lower-cost debt issuances in 2004 to increase value and reduce risks through an ongoing liability management initiative. Largely under this initiative, in 2004 TXU Corp. repurchased or legally defeased \$3.6 billion of debt securities (including equity-linked debt securities and debt held by subsidiary trusts). Debt extinguishment losses in 2004 totaled \$416 million (\$382 million after-tax). Also see Note 8 for a discussion of the repurchase of preferred membership interests.

Litigation

In 2004, management assessed the progress and status of matters in litigation, and in anticipation of resolution, recorded a net charge of \$84 million (\$55 million after-tax). In January 2005, TXU Corp. reached a comprehensive settlement regarding the consolidated amended securities class action lawsuit initially filed in October 2002. The agreement included a one-time payment to the class members of \$150 million, of which \$101 million in reimbursement from insurance carriers has since been received.

Cities Rate Settlement

In the fourth quarter of 2004, TXU Corp. recorded a \$21 million (\$14 million after-tax) charge for estimated payments under a settlement, which was finalized in February 2005, with a number of municipalities initiating an inquiry regarding distribution rates charged by TXU Electric Delivery.

3. CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

FIN 47 was effective for TXU Corp. with reporting for the fourth quarter of 2005. This interpretation clarifies the term “conditional asset retirement” under SFAS 143 and requires entities to record the fair value of a legal asset retirement obligation, the timing or method of settlement of which is conditional on a future event. For TXU Corp., such liability relates to asbestos removal and disposal costs. As the new accounting rule required retrospective application to the inception of the liability, the effects of the adoption reflect the accretion and depreciation from the liability inception date through December 31, 2005. The liability is accreted each period, representing the time value of money, and the capitalized cost is depreciated over the remaining useful life of the related asset.

The following table summarizes the impact as of December 31, 2005 of adopting FIN 47:

Increase in property, plant and equipment – net	\$ 5
Increase in other noncurrent liabilities and deferred credits	(17)
Increase in accumulated deferred income taxes	<u>4</u>
Cumulative effect of change in accounting principle.....	<u>\$ (8)</u>

The increase in other noncurrent liabilities and deferred credits would have been \$15 million and \$16 million at December 31, 2003 and 2004, respectively.

SFAS 123R was issued in December 2004. TXU Corp. early adopted SFAS 123R effective October 1, 2004 and recorded a cumulative effect of change in accounting principle of \$10 million after-tax. See Note 10 for additional discussion.

The following summarizes the effect on results for 2003 for changes in accounting principles effective January 1, 2003:

Charge from rescission of EITF 98-10, net of tax effect of \$34 million	\$ (63)
Credit from adoption of SFAS 143, net of tax expense effect of \$3 million	<u>5</u>
Cumulative effect of changes in accounting principles	<u>\$ (58)</u>

In October 2002, EITF 02-3 was issued and rescinded EITF 98-10, which required mark-to-market accounting for all trading activities. Pursuant to this rescission, only contracts that are derivatives under SFAS 133 are subject to mark-to-market accounting. Contracts that may not be derivatives under SFAS 133, but were marked-to-market under EITF 98-10, consist primarily of gas transportation and storage agreements, power tolling, full requirements and capacity contracts. This new accounting rule was effective for new contracts entered into after October 25, 2002. Nonderivative contracts entered into prior to October 26, 2002, continued to be accounted for at fair value through December 31, 2002; however, effective January 1, 2003, such contracts were required to be accounted for on an accrual basis. Accordingly, a charge of \$97 million (\$63 million after-tax) was reported as a cumulative effect of a change in accounting principle in the first quarter of 2003. Of the total, \$75 million reduced net commodity contract assets and liabilities and \$22 million reduced inventory that had previously been marked-to-market as a trading position. The cumulative effect adjustment represents the net gains previously recognized for these contracts under mark-to-market accounting.

SFAS 143 became effective on January 1, 2003. SFAS 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period of its inception. For TXU Corp., such liabilities primarily relate to nuclear generation plant decommissioning, land reclamation related to lignite mining and removal of lignite plant ash treatment facilities.

As the new accounting rule required retrospective application to the inception of the liability, the effects of the adoption reflect the accretion and depreciation from the liability inception date through December 31, 2002. Further, the effects of adoption take into consideration liabilities of \$215 million (previously reflected in accumulated depreciation) TXU Corp. had previously recorded as depreciation expense and \$26 million (reflected in other noncurrent liabilities) of unrealized net gains associated with the decommissioning trusts.

The following table summarizes the impact as of January 1, 2003 of adopting SFAS 143:

Increase in property, plant and equipment – net	\$ 488
Increase in other noncurrent liabilities and deferred credits	(528)
Increase in accumulated deferred income taxes	(3)
Increase in regulatory assets - net.....	<u>48</u>
Cumulative effect of change in accounting principle.....	<u>\$ 5</u>

4. DISCONTINUED OPERATIONS

The following summarizes the financial information of the various businesses reported as discontinued operations:

	TXU Gas	TXU Australia	Strategic Retail Services	Pedrick- town	Mexico	Europe	Total	
2005								
Operating revenues	\$ —	\$ —	\$ —	\$ 12	\$ —	\$ —	\$ 12	
Operating costs and expenses	—	—	—	14	—	—	14	
Other deductions (income) — net.....	—	—	3	—	—	—	3	
Operating loss before income taxes....	—	—	(3)	(2)	—	—	(5)	
Income tax benefit.....	—	—	(1)	—	—	—	(1)	
Credits (charges) related to exit (after-tax)	3	10	—	(4)	1	(1)	9	
Income (loss) from discontinued operations.....	<u>\$ 3</u>	<u>\$ 10</u>	<u>\$ (2)</u>	<u>\$ (6)</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 5</u>	
	TXU Gas	TXU Australia	Strategic Retail Services	Pedrick- town	Telecom	Mexico	Europe	Total
2004								
Operating revenues	\$ 911	\$ 835	\$ 17	\$ 32	\$ 54	\$ 4	\$ —	\$ 1,853
Operating costs and expenses	898	666	20	37	49	4	—	1,674
Other deductions (income) — net.....	101	2	10	—	16	—	5	134
Interest income	(9)	(2)	(1)	—	(5)	—	—	(17)
Interest expense and related charges...	37	96	—	—	19	—	—	152
Operating income (loss) before income taxes	(116)	73	(12)	(5)	(25)	—	(5)	(90)
Income tax expense (benefit)	(27)	25	(4)	(2)	(8)	(1)	(2)	(19)
Credits (charges) related to exit (after-tax)	(193)	129	(6)	(17)	1	(2)	(143)	(231)
Recognition of tax benefits	—	—	—	—	—	—	—	680
Income (loss) from discontinued operations.....	<u>\$ (282)</u>	<u>\$ 177</u>	<u>\$ (14)</u>	<u>\$ (20)</u>	<u>\$ (16)</u>	<u>\$ (1)</u>	<u>\$ (146)</u>	<u>\$ 378</u>
2003								
Operating revenues	\$1,344	\$1,103	\$ 60	\$ 22	\$ 162	\$ 95	\$ —	\$ 2,786
Operating costs and expenses	1,227	819	60	28	146	97	—	2,377
Other deductions (income) — net.....	(1)	(19)	11	—	15	(3)	5	8
Interest income	(2)	(6)	(1)	—	(6)	—	—	(15)
Interest expense and related charges...	40	150	1	—	61	1	—	253
Operating income (loss) before income taxes	80	159	(11)	(6)	(54)	—	(5)	163
Income tax expense (benefit)	26	38	(4)	(2)	(11)	—	(1)	46
Charges related to exit (after-tax)	—	—	(9)	—	(34)	—	—	(43)
Income (loss) from discontinued operations.....	<u>\$ 54</u>	<u>\$ 121</u>	<u>\$ (16)</u>	<u>\$ (4)</u>	<u>\$ (77)</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ 74</u>

Prior to 2003, the TXU Europe and TXU Australia businesses were reported in the International segment, and subsequently the TXU Australia business was reported in its own segment. The TXU Gas business was previously reported in the Energy Delivery (now TXU Electric Delivery) segment. The Pedricktown business and the Strategic Retail Services operations were previously reported in the TXU Energy Holdings segment. The Telecommunications and Mexico operations were previously reported in Corporate and other activities.

TXU Gas — In October 2004, Atmos Energy Corporation and TXU Gas completed a merger by division, which resulted in the disposition of the operations of TXU Gas for \$1.9 billion in cash (the TXU Gas transaction). TXU Gas was largely a regulated business engaged in the purchase, transmission, distribution and retail sale of natural gas. Results of the TXU Gas business totaled a loss of \$282 million in 2004. TXU Gas' results in 2004 included charges related to the sale of the business of \$193 million after-tax. Results in 2004 also included a loss of \$99 million after-tax related to regulatory disallowances arising from a system-wide distribution rate case ruling and an income tax charge of \$17 million due to an IRS ruling related to a prior year disputed deduction. A net credit of \$3 million in 2005 includes the effect of a favorable resolution of a working capital adjustment related to the disposition and a \$9 million charge primarily representing an adjustment to the estimated tax effect of the disposition.

TXU Australia — In July 2004, TXU Corp. completed the sale of TXU Australia to Singapore Power Ltd. for \$1.9 billion in cash and \$1.7 billion in assumed debt. TXU Australia's operations consisted of a portfolio of competitive and regulated energy businesses, principally in Victoria and South Australia. TXU Australia's results in 2004 included an after-tax gain on sale of the business of \$241 million. The \$10 million credit recorded in 2005 primarily represented an adjustment to the estimated income tax effect of the sale.

Strategic Retail Services — In December 2003, TXU Energy Holdings finalized a formal plan to sell its strategic retail services business, which was engaged principally in providing energy management services. Results in 2004 include a \$6 million after-tax charge to settle a contract dispute related to the business. Substantially all disposition activities have been completed. Results in 2005 reflect an after-tax charge of \$2 million related to a litigation settlement.

Pedricktown — In the second quarter of 2004, TXU Energy Holdings initiated a plan to sell the Pedricktown, New Jersey 122 MW power production business and exit the related power supply and gas transportation agreements resulting in a \$17 million after-tax impairment charge in 2004. The business was sold on July 1, 2005 for \$8.7 million in cash. A \$4 million after-tax charge in 2005 represents an estimated working capital adjustment related to the sale transaction.

Mexico — In January 2004, TXU Corp. completed the sale of its majority-owned gas distribution operations in Mexico for \$11 million in notes receivable settled for cash in January 2006.

TXU Europe — In January 2005, TXU Corp. executed a comprehensive agreement resolving potential claims relating to TXU Europe. Results from discontinued operations in 2004 include an after-tax charge of \$143 million for an expected payment of that amount under the terms of the agreement. A \$1 million charge recorded in 2005 reflects an adjustment to the settlement. The \$222 million settlement was paid in full in October 2005.

Telecommunications — In April 2004, TXU Corp. sold its telecommunications business for \$524 million in cash and \$3 million of assumed debt. The business was formerly a joint venture and was consolidated from March 1, 2003 through the sale date.

Income tax benefits — Discontinued operations results in 2004 also reflected the recognition of \$680 million in tax benefits associated with the 2002 write-off of the investment in TXU Europe. The tax benefit was based on a preliminary notice received from the IRS in June 2004 and primarily reflected the utilization of the worthlessness deduction against capital gains arising from the dispositions of TXU Australia, TXU Gas and the communications business as well as transactions completed in prior years. Also see Notes 9 and 11 for a discussion of TXU Europe income tax matters.

Balance sheet — There were no assets or liabilities held for sale as of December 31, 2005. The following details the assets and liabilities held for sale as of December 31, 2004:

	December 31, 2004		
	Pedrick- town	Other	Total
Current assets	\$ 2	\$ 7	\$ 9
Property, plant and equipment	15	—	15
Assets held for sale	<u>\$ 17</u>	<u>\$ 7</u>	<u>\$ 24</u>
Current liabilities	\$ 3	\$ —	\$ 3
Noncurrent liabilities	3	—	3
Liabilities held for sale	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 6</u>

5. EXTRAORDINARY ITEMS

Purchase of Lease Trust Interest — In the fourth quarter of 2005, TXU Corp. recorded an extraordinary loss of \$50 million (net of a tax benefit of \$28 million) related to a December 2005 agreement to purchase, for \$69 million in cash, the owner participant interest in a trust established to lease combustion turbines to TXU Corp. The transaction is expected to close in March 2006. The trust's assets consist primarily of nine combustion turbines and its liabilities consist primarily of \$91 million principal amount of 7.46% debt with amortizing payments through 2015. The owner participant in the trust is an unrelated party. The trust is a variable interest entity and the agreement has been accounted for in accordance with FIN 46R, resulting in consolidation of the trust's assets and liabilities in TXU Corp.'s financial statements. The combustion turbine assets and debt were recorded at estimated fair market values of \$35 million and \$96 million, respectively. The net loss reflects the excess of the purchase price over the fair value of the trusts' net assets, net of the reversal of a previously established liability of \$59 million related to the combustion turbine lease.

Securitization Bonds — The Settlement Plan addressed the issuance of securitization bonds to recover regulatory asset stranded costs and other qualified costs. A financing order finalized in January 2003 authorized the issuance of securitization bonds with a principal amount of \$1.3 billion, and the second and final tranche of the securitization bonds was issued in June of 2004. An extraordinary gain of \$16 million (net of tax of \$9 million) recorded in the second quarter of 2004 represents an increase in the carrying value of the regulatory asset subject to securitization. The increase in the related regulatory asset is due to the effect of higher interest rates than previously estimated on the bonds and therefore increased amounts to be recovered from REPs through revenues as a transition charge to service the principal and interest of the bonds.

6. SHORT-TERM FINANCING

Short-term Borrowings — At December 31, 2005, TXU Corp. had outstanding short-term borrowings consisting of bank borrowings under the credit facilities of \$440 million and commercial paper of \$358 million at a weighted average interest rate of 4.69%. At December 31, 2004, TXU Corp. had short-term borrowings consisting of outstanding bank borrowings of \$210 million at a weighted average interest rate of 5.25%.

Credit Facilities — At December 31, 2005, TXU Corp. had access to credit facilities (all of which provide for long-term borrowings) as follows:

Facility	Maturity Date	Authorized Borrowers	At December 31, 2005			
			Facility Limit	Letters of Credit	Cash Borrowings	Availability
Three-Year Revolving Credit Facility	June 2008	TXU Energy Holdings, TXU Electric Delivery	\$ 1,400	\$ 630	\$ —	\$ 770
Three-Year Revolving Credit Facility	August 2008	TXU Energy Holdings, TXU Electric Delivery	1,000	—	200	800
Five-Year Revolving Credit Facility	March 2010	TXU Energy Holdings, TXU Electric Delivery	1,600	—	195	1,405
Five-Year Revolving Credit Facility	June 2010	TXU Energy Holdings, TXU Electric Delivery	500	40	—	460
Five-Year Revolving Credit Facility	December 2009	TXU Energy Holdings	500	455	45	—
Total			\$ 5,000	\$ 1,125	\$ 440	\$ 3,435

In August 2005, TXU Energy Holdings and TXU Electric Delivery executed an agreement for a new \$1.0 billion 3-year joint credit facility with terms comparable to its existing credit facilities. The facility may be used for working capital and general corporate purposes, including providing support for issuances of commercial paper and letters of credit by TXU Energy Holdings and TXU Electric Delivery.

In March 2005, TXU Energy Holdings and TXU Electric Delivery amended their joint credit facilities, increasing the capacity by \$1.0 billion, extending the maturity dates and reducing the borrowing costs. The amended and restated facilities may be used for working capital and general corporate purposes, including providing support for issuances of commercial paper and letters of credit by TXU Energy Holdings and TXU Electric Delivery.

In January 2005, TXU Corp.'s \$425 million credit facility was terminated and \$419 million of related outstanding letters of credit were effectively transferred to other facilities.

The maximum amount TXU Energy Holdings and TXU Electric Delivery can directly access under the facilities is \$5.0 billion and \$3.6 billion, respectively.

Sale of Receivables — TXU Corp. has had an accounts receivable securitization program in place for a number of years. The activity under this program is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, subsidiaries of TXU Corp. (originators) sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy remote direct subsidiary of TXU Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions (the funding entities). In June 2005, the program was renewed until June 2008.

The maximum amount of funding currently available under the program is \$700 million, and as of December 31, 2005 the program funding was \$671 million. Under certain circumstances, the amount of customer deposits held by the originators can reduce the amount of undivided interests that can be sold, thus reducing funding available under the program. Funding availability for all originators is reduced by 100% of the customer deposits if TXU Energy Holdings' coverage ratio is less than 2.5 times; 50% if TXU Energy Holdings' coverage ratio is less than 3.25 times, but at least 2.5 times; and zero % if TXU Energy Holdings' coverage ratio is 3.25 times or more. The originator's customer deposits, which totaled \$111 million at December 31, 2005, did not affect funding availability at that date as TXU Energy Holdings' coverage ratio was in excess of 3.25 times.

All new trade receivables under the program generated by the originators are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, reflect seasonal variations in the level of accounts receivable, changes in collection trends as well as other factors such as changes in sales prices and volumes. TXU Receivables Company has issued subordinated notes payable to the originators for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The balance of the subordinated notes payable was \$201 million and \$337 million at December 31, 2005 and 2004, respectively.

The discount from face amount on the purchase of receivables principally funds program fees paid by TXU Receivables Company to the funding entities, as well as a servicing fee paid by TXU Receivables Company to TXU Business Services, a direct subsidiary of TXU Corp. The program fees (losses on sale), which consist primarily of interest costs on the underlying financing, were approximately \$23 million in 2005, and \$12 million in both 2004 and 2003, and approximated 4.0%, 2.1% and 2.4% in 2005, 2004 and 2003, respectively, of the average funding under the program on an annualized basis; these fees represent the net incremental costs of the program to the originators and are reported in SG&A expenses. The servicing fees, which totaled approximately \$4 million in 2005 and \$7 million in both 2004 and 2003, compensate TXU Business Services for its services as collection agent, including maintaining the detailed accounts receivable collection records.

The December 31, 2005 consolidated balance sheet reflects \$872 million face amount of trade accounts receivable of TXU Energy Holdings and TXU Electric Delivery sold to TXU Receivables Company, such amount having been reduced by \$671 million of undivided interests sold by TXU Receivables Company. Funding under the program related to continuing operations increased \$197 million in 2005, decreased \$73 million in 2004 and increased \$100 million in 2003. Funding increases or decreases under the program are reflected as operating cash flow activity in the statement of cash flows. The carrying amount of the retained interests in the accounts receivable approximated fair value due to the short-term nature of the collection period.

Activities of TXU Receivables Company for 2005, 2004 and 2003 were as follows:

	Year Ended December 31,		
	2005	2004	2003
Cash collections on accounts receivable	\$ 7,450	\$ 8,449	\$ 8,538
Face amount of new receivables purchased	(7,511)	(8,149)	(8,143)
Discount from face amount of purchased receivables	27	19	19
Program fees paid	(23)	(12)	(12)
Servicing fees paid	(4)	(7)	(7)
Decrease in subordinated notes payable	<u>(136)</u>	<u>(174)</u>	<u>(524)</u>
Operating cash flows used by (provided to) TXU Corp. under the program	(197)	126	(129)
Cash flows related to disposed TXU Gas business	<u>—</u>	<u>(53)</u>	<u>29</u>
Cash flows used by (provided to) continuing operations	<u>\$ (197)</u>	<u>\$ 73</u>	<u>\$ (100)</u>

Upon termination of the program, cash flows to TXU Corp. would be delayed as collections of sold receivables would be used by TXU Receivables Company to repurchase the undivided interests sold instead of purchasing new receivables. The level of cash flows would normalize in approximately 16 to 30 days.

Contingencies Related to Sale of Receivables Program — Although TXU Receivables Company expects to be able to pay its subordinated notes from the collections of purchased receivables, these notes are subordinated to the undivided interests of the financial institutions in those receivables, and collections might not be sufficient to pay the subordinated notes. The program may be terminated if either of the following events occurs:

- 1) all of the originators cease to maintain their required fixed charge coverage ratio and debt to capital (leverage) ratio;
- 2) the delinquency ratio (delinquent for 31 days) for the sold receivables, the default ratio (delinquent for 91 days or deemed uncollectible), the dilution ratio (reductions for discounts, disputes and other allowances) or the days collection outstanding ratio exceed stated thresholds and the financial institutions do not waive such event of termination. The thresholds apply to the entire portfolio of sold receivables, not separately to the receivables of each originator.

7. LONG-TERM DEBT

Long-term Debt — At December 31, 2005 and 2004, the long-term debt of TXU Corp. consisted of the following:

	December 31,	
	2005	2004
<u>TXU Energy Holdings</u>		
Pollution Control Revenue Bonds:		
Brazos River Authority:		
5.400% Fixed Series 1994A due May 1, 2029.....	\$ 39	\$ 39
5.400% Fixed Series 1994B due May 1, 2029, remarketing date May 1, 2006(a).....	39	39
5.400% Fixed Series 1995A due April 1, 2030, remarketing date May 1, 2006(a).....	50	50
5.050% Fixed Series 1995B due June 1, 2030, remarketing date June 19, 2006(a).....	114	114
7.700% Fixed Series 1999A due April 1, 2033.....	111	111
6.750% Fixed Series 1999B due September 1, 2034, remarketing date April 1, 2013(a).....	16	16
7.700% Fixed Series 1999C due March 1, 2032.....	50	50
3.630% Floating Series 2001A due October 1, 2030 (b).....	71	—
4.750% Fixed Series 2001B due May 1, 2029, remarketing date November 1, 2006(a).....	19	19
5.750% Fixed Series 2001C due May 1, 2036, remarketing date November 1, 2011(a).....	217	217
3.560% Floating Series 2001D due May 1, 2033 (b).....	268	268
4.450% Floating Taxable Series 2001I due December 1, 2036(b).....	62	62
3.630% Floating Series 2002A due May 1, 2037(b).....	45	45
6.750% Fixed Series 2003A due April 1, 2038, remarketing date April 1, 2013(a).....	44	44
6.300% Fixed Series 2003B due July 1, 2032.....	39	39
6.750% Fixed Series 2003C due October 1, 2038.....	52	52
5.400% Fixed Series 2003D due October 1, 2029, remarketing date October 1, 2014(a).....	31	31
Sabine River Authority of Texas:		
6.450% Fixed Series 2000A due June 1, 2021.....	51	51
5.500% Fixed Series 2001A due May 1, 2022, remarketing date November 1, 2011(a).....	91	91
5.750% Fixed Series 2001B due May 1, 2030, remarketing date November 1, 2011(a).....	107	107
5.200% Fixed Series 2001C due May 1, 2028.....	70	—
5.800% Fixed Series 2003A due July 1, 2022.....	12	12
6.150% Fixed Series 2003B due August 1, 2022.....	45	45
Trinity River Authority of Texas:		
6.250% Fixed Series 2000A due May 1, 2028.....	14	14
5.000% Fixed Series 2001A due May 1, 2027, remarketing date November 1, 2006(a).....	37	37
Other:		
6.875% TXU Mining Fixed Senior Notes due August 1, 2005.....	—	30
6.125% Fixed Senior Notes due March 15, 2008(c).....	250	250
7.000% Fixed Senior Notes due March 15, 2013.....	1,000	1,000
4.920% Floating Rate Senior Notes due January 17, 2006(d).....	400	400
Capital lease obligations.....	103	9
Fair value adjustments related to interest rate swaps.....	9	15
Total TXU Energy Holdings.....	<u>\$ 3,456</u>	<u>\$ 3,257</u>

	December 31,	
	2005	2004
TXU Electric Delivery		
6.750% Fixed First Mortgage Bonds due July 1, 2005	\$ —	\$ 92
6.375% Fixed Senior Secured Notes due May 1, 2012 (g)	700	700
7.000% Fixed Senior Secured Notes due May 1, 2032 (g)	500	500
6.375% Fixed Senior Secured Notes due January 15, 2015(c)(g)	500	500
7.250% Fixed Senior Secured Notes due January 15, 2033(g)	350	350
5.000% Fixed Debentures due September 1, 2007(c)	200	200
7.000% Fixed Debentures due September 1, 2022	800	800
Unamortized discount	(17)	(19)
Sub-total	<u>3,033</u>	<u>3,123</u>
TXU Electric Delivery Transition Bond Company LLC(e)		
2.260% Fixed Series 2003 Bonds due in semiannual installments through February 15, 2007	44	80
4.030% Fixed Series 2003 Bonds due in semiannual installments through February 15, 2010	122	122
4.950% Fixed Series 2003 Bonds due in semiannual installments through February 15, 2013	130	130
5.420% Fixed Series 2003 Bonds due in semiannual installments through August 15, 2015	145	145
3.520% Fixed Series 2004 Bonds due in semiannual installments through November 15, 2009	215	270
4.810% Fixed Series 2004 Bonds due in semiannual installments through November 15, 2012	221	221
5.290% Fixed Series 2004 Bonds due in semiannual installments through May 15, 2016	290	290
Total TXU Electric Delivery Transition Bond Company LLC	<u>1,167</u>	<u>1,258</u>
Total TXU Electric Delivery	<u>4,200</u>	<u>4,381</u>
US Holdings		
7.170% Fixed Senior Debentures due August 1, 2007	10	10
7.460% Fixed Secured Facility Bonds with amortizing payments through January 2015	91	—
9.580% Fixed Notes due in semiannual installments through December 4, 2019	65	68
8.254% Fixed Notes due in quarterly installments through December 31, 2021	62	64
5.050% Floating Rate Junior Subordinated Debentures, Series D due January 30, 2037(d)	1	1
8.175% Fixed Junior Subordinated Debentures, Series E due January 30, 2037	8	8
Unamortized premium	5	—
Total US Holdings	<u>242</u>	<u>151</u>
TXU Corp.		
6.375% Fixed Senior Notes Series C due January 1, 2008(c)	200	200
6.375% Fixed Senior Notes Series J due June 15, 2006(c)	683	683
4.446% Fixed Senior Notes Series K due November 16, 2006	50	50
5.450% Fixed Senior Notes Series L due November 16, 2007(f)	—	101
5.800% Fixed Senior Notes Series M due May 16, 2008 (f)(h)	179	184
4.800% Fixed Senior Notes Series O due November 15, 2009(c)	1,000	1,000
5.550% Fixed Senior Notes Series P due November 15, 2014(c)	1,000	1,000
6.500% Fixed Senior Notes Series Q due November 15, 2024(c)	750	750
6.550% Fixed Senior Notes Series R due November 15, 2034	750	750
8.820% Building Financing due semiannually through February 11, 2022	109	120
5.650% Floating Convertible Senior Notes due July 15, 2033(d)	25	25
Fair value adjustments related to interest rate swaps	(53)	—
Unamortized discount	(9)	(11)
Total TXU Corp.	<u>4,684</u>	<u>4,852</u>
Total TXU Corp. consolidated	12,582	12,641
Less amount due currently	(1,250)	(229)
Total long-term debt	<u>\$ 11,332</u>	<u>\$ 12,412</u>

- (a) These series are in the multiannual mode and are subject to mandatory tender prior to maturity on the mandatory remarketing date. On such date, the interest rate and interest rate period will be reset for the bonds.
- (b) Interest rates in effect at December 31, 2005. These series are in a weekly rate mode and are classified as long-term as they are supported by long-term irrevocable letters of credit.
- (c) Interest rates swapped to floating on an aggregate \$3.4 billion principal amount.
- (d) Interest rates in effect at December 31, 2005.
- (e) These bonds are nonrecourse to TXU Electric Delivery.
- (f) Equity-linked.
- (g) Unsecured as of October 25, 2005.
- (h) Expected to be remarketed on May 11, 2006, at which time the rate may change.

Debt Issuances and Retirements in 2005 — In December 2005, in connection with the consolidation of the combustion turbine lease trust, TXU Corp. assumed \$91 million principal amount of 7.460% fixed secured bonds with amortizing principal payments through 2015. See Note 5 for additional discussion.

In November 2005, TXU Energy Holdings remarketed the Sabine River Authority Series 2001C and the Brazos River Authority Series 1994A pollution control revenue bonds with aggregate principal amounts of \$70 million and \$39 million, respectively. The bonds were purchased upon mandatory tender in November 2003 and May 2005, respectively.

In August 2005, TXU Energy Holdings entered into a lease for a rail spur at the Big Brown generation plant. The new lease, which replaces an operating lease, is being accounted for as a capital lease and the obligation of \$95 million is reported in long-term debt.

In July 2005, the remaining publicly outstanding \$92 million principal amount of TXU Electric Delivery's Fixed First Mortgage Bonds matured and was paid. In a related action, in October 2005 TXU Electric Delivery released the liens associated with its 2002 Secured Indenture resulting in its Senior Secured Notes becoming unsecured obligations of TXU Electric Delivery ranking equally with all of its other unsecured obligations. Because the First Mortgage Bonds that served as collateral for the 2002 Secured Indenture were returned to TXU Electric Delivery in connection with that release and TXU Electric Delivery no longer had any publicly outstanding First Mortgage Bonds, TXU Electric Delivery discharged its 1983 Mortgage in October 2005. As a result of these actions, TXU Electric Delivery no longer has any secured debt outstanding.

In January 2005, TXU Energy Holdings remarketed and converted to floating rate mode the Brazos River Authority Series 2001A pollution control revenue bonds with an aggregate principal amount of \$71 million. The bonds were purchased upon mandatory tender in April 2004.

Other retirements of long-term debt in 2005 totaling \$138 million represent payments at scheduled maturity dates.

Fair Value Hedges — TXU Corp. uses fair value hedging strategies to manage its exposure to fixed interest rates on long-term debt. During the first quarter of 2005, TXU Corp. entered into interest rates swaps associated with \$1.1 billion of fixed rate debt. These swaps qualified for and have been designated as fair value hedges in accordance with SFAS 133 (under the short-cut method as the hedges are 100% effective). At December 31, 2005, \$3.4 billion of fixed rate debt had been effectively converted to variable rates through interest rate swap transactions, expiring through 2024.

Long-term debt fair value adjustments—

	December 31,	
	2005	2004
Long-term debt fair value adjustments related to interest rate swaps at beginning of period — increase in debt carrying value	\$ 15	\$ 43
Fair value adjustments:		
Related to swaps included in the beginning balance	(22)	11
Related to swaps entered into during the period	(27)	(17)
Amount recognized as a reduction to loss on early extinguishment of debt upon redemption of related debt (a)	—	(7)
Amortization of net gains on settled fair value hedges (a) (b)	<u>(10)</u>	<u>(15)</u>
Long-term debt fair value adjustments related to interest rate swaps at the end of period — (decrease)/increase in debt carrying value	<u>\$ (44)</u>	<u>\$ 15</u>

(a) Amounts are pretax.

(b) Net value of settled in-the-money fixed-to-variable swaps that is being amortized as a reduction to interest expense over the remaining life of the associated debt.

Changes in open swap fair values reported as adjustments to debt amounts are offset by changes in derivative assets and liabilities.

Convertible Senior Notes — At December 31, 2005 and 2004, TXU Corp. had \$25 million principal amount outstanding of its Floating Rate Convertible Senior Notes due 2033. The notes bear regular interest at an annual floating rate equal to 3-month LIBOR, determined quarterly, plus 150 basis points, and are payable in arrears quarterly commencing October 15, 2003. The notes will bear additional contingent interest during periods after July 15, 2008 if the average trading price of the notes for a specified period exceeds 120% of the principal amount of the notes. The notes conversion rate at December 31, 2005 is 59.5196 shares of TXU Corp. common stock per \$1,000 principal amount of notes, which equates to 1,504,596 shares. Should the holders elect to convert the notes, TXU Corp. has the option to settle the conversion in cash, common stock or a combination of both. TXU Corp. intends to settle any future conversion of the remaining \$25 million principal amount of outstanding notes in common stock.

Equity-Linked Debt Securities — At December 31, 2005, TXU Corp. had one series of outstanding equity-linked debt securities:

Security	Senior Notes due 2008		Contract Adjustment Payment Rate (1)	Stock Purchase Contract			
	Principal Amount	Interest Rate (1)		Price per Share		Number of Shares (4)	
				Minimum	Maximum	Minimum	Maximum
Series M (Income Prides Issued 2002)	\$179	5.800%(2)	2.325%(3)	\$25.58	\$31.46	5,683,824	6,991,240

(1) Rates are annual, payments are quarterly.

(2) Expected to be remarketed on May 11, 2006, at which time the rate may change.

(3) Payable until the stock purchase contract settlement date of May 16, 2006.

(4) The number of shares issuable has been reserved.

In November 2005, the Series L Senior Notes equity-linked securities were remarketed to fund the settlement of the stock purchase contracts. TXU Corp. participated in the remarketing and purchased all of the outstanding Series L Senior Notes at a price of 100.5% of par and immediately retired the notes. In connection with the settlement, TXU Corp. issued 2,708,250 shares of common stock.

In March and April 2005, as part of its ongoing liability management initiative, TXU Corp. repurchased \$26 million principal amount of its outstanding Series L equity-linked debt securities and \$5 million principal amount of its outstanding Series M equity-linked debt securities for \$44 million. The \$13 million premium primarily reflects the in-the-money value (to holders) of the associated equity purchase contracts, and was charged to additional paid-in-capital.

Equity-linked debt securities consist of (i) senior notes and (ii) a stock purchase contract that obligates the holder to purchase TXU Corp. common stock on a future settlement date. The number of shares issuable upon settlement is based upon the average of the market price of TXU Corp. common stock immediately preceding the settlement date. The calculation of shares issuable is subject to a minimum price, which is typically the market price of common stock at the time of initial issuance of the equity-linked debt securities, and a maximum price, which includes a premium over the minimum price that was negotiated in connection with the pricing of the offering.

To the extent the market price of TXU Corp. common stock is below the minimum price on the settlement date, holders of equity-linked debt securities would be required to purchase TXU Corp. common stock at a price higher than the market price at that time. To the extent the market price is above the maximum price on the settlement date, holders of equity-linked securities would be allowed to purchase TXU Corp. common stock at a price lower than the market price at that time. The market price of TXU Corp.'s common stock is currently above the maximum price for the equity-linked debt securities currently outstanding.

In addition to interest, holders receive contract adjustment payments through the contract settlement date. At the issuance date of the securities, a liability for the present value of these payments was recorded with an offsetting reduction to common stock equity.

On the contract settlement date, the holder must purchase the common stock at the calculated price. To fund such purchase, the holder may pay cash and continue to hold the senior notes or elect to participate in the remarketing of the senior notes, or if such remarketing fails or cannot be held because a condition to the remarketing cannot be satisfied, surrender the senior notes to TXU Corp.

Debt Issuances and Retirements in 2004 — In 2004, TXU Corp. and its consolidated subsidiaries issued \$5.1 billion of long-term debt including \$3.5 billion of fixed rate senior notes, \$800 million of floating rate debt, and \$790 million of transition bonds. TXU Corp. and its consolidated subsidiaries retired or redeemed \$3.6 billion of long-term debt during 2004, including \$1.1 billion of equity-linked debt securities, \$613 million of first mortgage bonds, \$500 million of convertible senior notes, \$450 million of other long-term debt, \$400 million of floating rate debt, \$295 million of fixed rate senior notes, \$222 million of pollution control revenue bonds and \$32 million in transition bonds. In addition, TXU Corp. redeemed \$576 million of debt reported in liabilities of the telecommunications holding company at December 31, 2003.

Maturities — Sinking fund and maturity requirements for long-term debt instruments at December 31, 2005, were as follows:

<u>Year</u>	
2006.....	\$ 1,249
2007.....	330
2008.....	755
2009.....	1,129
2010.....	135
Thereafter.....	8,946
Unamortized premium and discount and fair value adjustments.....	(65)
Capital lease obligations (a).....	<u>103</u>
Total.....	<u>\$ 12,582</u>

(a) Includes \$1 million due currently.

8. SHAREHOLDERS' EQUITY

Common Stock Equity — Under Texas law, TXU Corp. may only declare dividends out of its surplus, which is statutorily defined as a company's net assets (i.e. total assets minus total debts) less its stated capital. The write-off of TXU Corp.'s investment in TXU Europe in 2002 resulted in negative surplus in 2002. In February 2003, TXU Corp. received shareholder approval as permitted under Texas law to reclassify approximately \$8 billion of its stated capital to surplus.

Declaration of Dividend — At its February 2006 meeting, the Board of Directors of TXU Corp. declared a quarterly dividend of \$0.4125 a share, payable April 3, 2006 to shareholders of record on March 3, 2006.

Stock Split — In 2005, TXU Corp.'s board of directors declared a two-for-one stock split effected in the form of a 100 percent stock dividend. The stock split entitled each shareholder of record at the close of business on November 18, 2005, to receive one additional share for every outstanding share of common stock they held on that date. The additional shares resulting from the stock split were distributed on December 8, 2005.

Common Stock Repurchase — In November 2005, the TXU Corp. board of directors authorized the repurchase of up to 34 million shares of common stock through the end of 2006. In November 2005, TXU Corp. repurchased and retired 12 million of the authorized 34 million shares at an average price of \$49.51 per share (including related fees and expenses) under this authority. As of February 22, 2006, TXU Corp. has repurchased an additional 8,097,526 shares of the authorized 34 million shares at an average price of \$50.31 per share (including related fees and expenses).

Accelerated Share Repurchase Program — In November 2004, TXU Corp. entered into an agreement with a broker-dealer counterparty under which TXU Corp. repurchased and retired 105 million shares of its outstanding common stock at an initial price of \$32.29 per share for a total of \$3.4 billion. Under the agreement, the counterparty immediately borrowed shares that were sold to and canceled by TXU Corp. and in turn purchased shares in the open market over a subsequent time period; the agreement was subject to a future contingent purchase price adjustment based on the actual price of the shares purchased by the counterparty. The purchase price adjustment could have been settled, at TXU Corp.'s option, in cash or in shares of its common stock. In May 2005, TXU Corp. paid \$523 million (including related fees and expenses) in cash to the counterparty in full settlement of the transaction. The counterparty had repurchased the shares under the agreement at an average price per share of \$36.91. See Note 1 for the effect of the program on earnings per share.

Thrift Plan — The Thrift Plan is an employee savings plan under which TXU Corp. matches a portion of employees' contributions of their earnings with a contribution in shares of common stock. Employees may reallocate or transfer all or part of their employer matching contributions to any of the plan's other investment options. Also see Note 12 for additional discussion. At December 31, 2005, the Thrift Plan had an obligation of \$220 million outstanding in the form of a note that TXU Corp. had purchased from a third-party lender in 1990 and recorded as a reduction to common equity. The note had been issued in connection with purchases of TXU Corp. common stock on the open market by the Thrift Plan trustee to satisfy future matching requirements. At December 31, 2005, the Thrift Plan trustee held 6,694,627 shares of TXU Corp. common stock. These shares (LESOP shares) are held by the trustee under the leveraged employee stock ownership provision of the Thrift Plan until allocated to Thrift Plan participants when required to meet TXU Corp.'s matching obligations. The Thrift Plan uses dividends on the LESOP shares held and contributions from TXU Corp., if required, to repay interest and principal on the note. TXU Corp. contributed \$17 million in 2005 and \$26 million in 2004 to service the note. Allocations of LESOP shares to participants' accounts increased common stock equity by \$1 million in 2005, \$3 million in 2004 and \$4 million in 2003.

Direct Stock Purchase and Dividend Reinvestment Plan (DRIP) — Issuances of new shares to satisfy purchases by DRIP participants (including reinvestment of dividends) increased common stock by \$4 million in 2004 and \$10 million in 2003. Since April 2004, share purchases by DRIP participants have been satisfied by purchases in the open market.

At December 31, 2005, authorized but unissued common shares of TXU Corp. were registered with the SEC for new issuance pursuant to the following:

DRIP Plan	4,293,187
Thrift Plan	11,095,566
Long-Term Incentive Compensation Plan	8,105,024
Omnibus Incentive Compensation Plan	18,000,000
Equity-linked debt securities	6,991,240
Convertible senior notes	1,504,596
Other	<u>1,381,949</u>
Total	<u>51,371,562</u>

TXU Corp. Preference Stock — In June 2005, TXU Corp. redeemed all 3,000 shares of its Series B preference stock outstanding (liquidation preference of \$100,000 per share) for the aggregate principal amount of \$300 million. The preference stock had a dividend rate of 7.24%.

US Holdings' Preferred Stock — In August 2005, US Holdings redeemed all 379,231 shares of its outstanding preferred stock with a stated value of \$38 million for approximately \$40 million, including principal, premium and accrued dividends. The preferred stock had dividend rates ranging from \$4.00 to \$5.08 per share. In December 2005, US Holdings reissued 788 shares of its \$4.56 Series preferred stock in a private placement transaction.

Exchangeable Preferred Membership Interests of TXU Energy Holdings — In April 2004, TXU Corp. repurchased TXU Energy Holdings' exchangeable preferred membership interests with a liquidation amount of \$750 million for \$1.85 billion (including transaction costs). The excess of the purchase price over the carrying value of the securities, net of \$384 million in income tax benefits recorded as a deferred tax asset, was recorded as a charge to additional paid-in capital in the amount of \$849 million. The carrying value of the securities was \$617 million, which is the liquidation amount of \$750 million net of \$102 million in unamortized discount and \$31 million in unamortized debt issuance costs, both recorded at the time of issuance of the securities in November 2002. The charge to additional paid-in capital is accounted for in a manner similar to TXU Corp.'s preference share dividends, resulting in a reduction in net income available to common shareholders.

Shareholders Rights Plan — In November 2005, TXU Corp.'s board of directors elected to accelerate the expiration of its shareholder rights plan to November 18, 2005. TXU adopted the shareholder rights plan, a form of unsolicited takeover defense, in February 1999, and the rights were scheduled to expire in February 2009.

Dividend Restrictions — TXU Corp. is required to make contract adjustment payments to the holders of equity-linked debt securities. TXU Corp. has the right to defer the contract adjustment payments, but any such election would subject TXU Corp. to restrictions on the payment of dividends on and redemption of outstanding shares of common stock. TXU Corp. has no plans to defer these contract adjustment payments. At December 31, 2005, there were no restrictions on the payment of common stock dividends or redemption of outstanding shares of TXU Corp. common stock.

TXU Corp. depends, in part, on the dividends it receives from its subsidiaries.

The table below reflects the changes in TXU Corp. common stock outstanding for each of the years ending December 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at beginning of year	479,705,760	647,766,184	643,948,000
Issuances under equity-linked debt securities	2,708,250	3,634,742	—
Issuances under Direct Stock Purchase and Dividend Reinvestment Plan	—	220,028	1,016,758
Issuances under long-term incentive compensation plans (a)	1,093,480	1,187,028	3,841,200
Issued on conversion of convertible senior notes	9,716	—	—
Repurchases	(12,476,228)	(168,514,888)	—
Forfeitures and cancellations under Long-Term Incentive Compensation Plan (b)	(195,000)	(4,587,334)	(1,039,774)
Balance at end of year	<u>470,845,978</u>	<u>479,705,760</u>	<u>647,766,184</u>

- (a) Includes distributions of restricted stock as well as additional shares issued as a result of exceeding share price performance targets.
(b) Reflects forfeitures and cancellations of restricted stock awards granted plus additional shares resulting from reinvestment of dividends on restricted stock.

9. COMMITMENTS AND CONTINGENCIES

Commitments — At December 31, 2005, TXU Corp. has commitments under energy-related contracts, leases and other agreements as follows:

<u>Coal purchase agreements and coal transportation agreements</u>	
2006	\$ 110
2007	95
2008	98
2009	102
2010	—
Thereafter	—
Total	<u>\$ 405</u>

<u>Pipeline transportation and storage reservation fees</u>	
2006	\$ 67
2007	47
2008	36
2009	38
2010	37
Thereafter	55
Total pipeline transportation and storage reservation fees	<u>\$ 280</u>

<u>Capacity payments under existing agreements</u>	
2006	\$ 89
2007	46
2008	23
2009	—
2010	—
Thereafter	—
Total capacity payments	<u>\$ 158</u>

On the basis of TXU Corp.'s current expectations of demand from its electricity customers as compared with its capacity and take-or-pay payments, management does not consider it likely that any material payments will become due for electricity not taken beyond capacity payments.

Future minimum lease payments under both capital leases and operating leases

	<u>Capital Leases</u>	<u>Operating Leases (a)</u>
2006.....	\$ 7	\$ 50
2007.....	7	52
2008.....	7	48
2009.....	6	48
2010.....	6	46
Thereafter.....	<u>102</u>	<u>308</u>
Total future minimum lease payments.....	135	<u>\$ 552</u>
Less amounts representing interest.....	<u>32</u>	
Present value of future minimum lease payments.....	103	
Less current portion.....	<u>1</u>	
Long-term capital lease obligation.....	<u>\$ 102</u>	

(a) Includes operating leases with initial or remaining noncancelable lease terms in excess of one year. Excludes TXU Energy Holdings' future minimum lease payments for combustion turbines owned by a lease trust of \$17 million in 2006, \$17 million in 2007, \$16 million in 2008, \$16 million in 2009, \$17 million in 2010 and \$83 million in periods thereafter. See Note 5 for a discussion of US Holdings' agreement to purchase the owner participant interest in this combustion turbine lease trust.

TXU Energy Holdings has commitments in place to replace the four steam generators in one of the two generation units of the Comanche Peak nuclear plant in order to maintain the operating efficiency of the unit. An agreement for the manufacture and delivery of the equipment was completed in October 2003 and delivery is scheduled for late 2006. Estimated future project capital commitments total \$111 million, of which approximately \$44 million is expected to be incurred in 2006 and the balance of approximately \$67 million in 2007.

Guarantees — As discussed below, TXU Corp. has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions. Accounting rules require the recording of a liability for the fair value of all guarantees entered into or modified subsequent to December 31, 2002.

Disposed TXU Gas operations — In connection with the TXU Gas transaction in October 2004, TXU Corp. agreed, for a period of three years, to indemnify Atmos Energy Corporation for certain qualified environmental claims that may arise in relation to the assets acquired by Atmos Energy Corporation. TXU Corp. is not required to indemnify Atmos Energy Corporation until the aggregate of all such qualified claims exceeds \$10 million, and TXU Corp. is only required to indemnify Atmos Energy Corporation for 50% of qualified claims between \$10 million and \$20 million. The maximum amount that TXU Corp. would be required to pay Atmos Energy Corporation pursuant to this environmental indemnity is \$192.5 million. In addition, TXU Corp. agreed to indemnify Atmos Energy Corporation for up to \$500 million for any liability related to assets retained by TXU Gas, including certain inactive gas plant sites not acquired by Atmos Energy Corporation, and up to \$1.4 billion for contingent liabilities associated with preclosing tax and employee related matters. In each case, TXU Corp.'s indemnification is limited to 10 years. The maximum aggregate amount that TXU Corp. may be required to pay is \$1.925 billion. The estimated fair value of the indemnification recorded upon completion of the TXU Gas transaction was \$2.5 million.

Letters of credit — At December 31, 2005, TXU Energy Holdings had outstanding letters of credit under its revolving credit facilities in the amount of \$636 million to support hedging and risk management margin requirements in the normal course of business and for miscellaneous credit support requirements. As of December 31, 2005, approximately 62% of the obligations supported by these letters of credit mature within one year, and substantially all of the remainder mature in the next two years.

TXU Energy Holdings has entered into various agreements that require letters of credit for financial assurance purposes. Under its five-year revolving credit facility maturing in December 2009, letters of credit totaling \$455 million were outstanding at December 31, 2005 to support existing floating rate pollution control revenue bond debt of approximately \$445 million. The letters of credit are available to fund the payment of such debt obligations. These letters of credit have expiration dates in 2009.

Residual value guarantees in operating leases — TXU Corp. is the lessee under various operating leases that obligate it to guarantee the residual values of the leased facilities. At December 31, 2005, the aggregate maximum amount of residual values guaranteed was approximately \$134 million with an estimated residual recovery of approximately \$130 million. A significant portion of the maximum guarantee amount relates to leases entered into prior to December 31, 2002. The average life of the lease portfolio is approximately seven years.

Project development guarantees — In 1990, US Holdings repurchased an electric co-op's minority ownership interest in the Comanche Peak nuclear generation plant and assumed the co-op's indebtedness to the US government for the facilities. The indebtedness is included in long-term debt reported in the consolidated balance sheet. US Holdings is making principal and interest payments to the co-op in an amount sufficient for the co-op to make payments on its indebtedness. US Holdings guaranteed the co-op's payments, and in the event that the co-op fails to make its payments on the indebtedness, the US government would assume the co-op's rights under the agreement, and such payments would then be owed directly by US Holdings. At December 31, 2005, the balance of the indebtedness was \$127 million with maturities of principal and interest extending to December 2021. The indebtedness is secured by a lien on the purchased facilities.

In 1992, a discontinued engineering and construction business of TXU Gas completed construction of a plant, the performance of which is warranted by TXU Gas through 2008. The maximum contingent liability under the guarantee is approximately \$100 million. No claims have been asserted under the guarantee and none are anticipated. TXU Corp. retains this contingent liability under the terms of the TXU Gas transaction agreement.

Income Tax Contingencies — TXU Corp. and certain of its subsidiaries are currently under audit by the IRS with respect to tax returns for various tax periods as discussed below, and are subject to audit by other taxing authorities and by the IRS for subsequent tax periods. The amount and timing of any tax assessments resulting from these audits are uncertain, and could have a material effect on TXU Corp.'s liquidity and results of operations. Certain audit matters as to which management believes there is a reasonable possibility of a material future tax assessment are discussed below.

TXU Corp. 1994-1996 Audit — In the second quarter of 2005, TXU Corp. took actions to effectively finalize the IRS audit of its federal income tax returns for 1994-1996. Adjustments related to the audit resulted in additional tax due of \$6 million and interest of \$8 million. As a result, TXU Corp. recorded an income tax charge of \$6 million, after taking into account previously established reserves. The adjustments resulted in a charge of \$10 million at TXU Energy Holdings and a credit of \$4 million at TXU Electric Delivery.

TXU Corp. 1997-2002 Audit — The IRS is currently examining TXU Corp.'s federal income tax returns for 1997-2002. In addition to proposed adjustments with respect to the worthlessness of TXU Corp.'s investment in TXU Europe (discussed separately below), the IRS has issued notices of proposed adjustment with respect to several other items. The IRS is expected to complete its examination before the third quarter of 2006. TXU Corp. expects to protest a number of adjustments, and expects that the protested issues will not be resolved until after 2006. Management believes that tax reserves recorded for potential adjustments to TXU Corp.'s 1997-2002 tax returns are adequate to provide for the expected outcome of the IRS's proposed adjustments.

TXU Corp. 2003-2005 Audit — TXU Corp. expects that the IRS will commence an examination of its 2003 through 2005 tax returns during 2006. Consistent with its experience in prior audits, TXU Corp. expects that the IRS will propose adjustments to the tax returns and that TXU Corp. will incur some liability to resolve those proposed adjustments with the IRS. The precise nature and amount of any such proposed adjustments is uncertain but the likelihood of occurrence is probable. TXU Corp. has recorded reserves related to potential audit adjustments, representing the estimated tax expense to be incurred as a result of such audit adjustments.

TXU Gas (formerly ENSERCH Corporation) Audits — In the first quarter of 2005, the statute of limitations for the IRS to complete its audit of federal income tax returns for 1993 and 1994-1997 expired. The IRS has filed a notice of deficiency for an additional \$8 million of tax for 1993 and \$8 million for 1994. Although TXU Corp. does not believe that the notice of deficiency is supportable under existing facts and law, in June 2005, TXU Corp. paid the additional tax and in September 2005 paid \$14 million of interest. Because taxes and interest had been previously reserved, there was no impact on earnings. TXU Corp. is currently evaluating whether to seek a refund of the deficiency. Any such refund suit is required to be filed within two years of the June 2005 payment date.

TXU Europe — On its US federal income tax return for calendar year 2002, TXU Corp. claimed an ordinary loss deduction related to the worthlessness of TXU Corp.'s investment in TXU Europe, the tax benefit of which is estimated to be \$983 million (assuming the deduction is sustained on audit). Due to a number of uncertainties regarding the proper tax treatment of the worthlessness loss, no portion of the tax benefit related to TXU Corp.'s 2002 write-off of its investment in TXU Europe was recognized in income prior to the second quarter of 2004.

In June 2004, the IRS issued a preliminary notice of proposed adjustment (subsequently amended in September 2004) proposing to disallow the 2002 worthlessness deduction and treat the worthlessness as a capital loss (deductible only against capital gains). In addition, in 2004 TXU Corp. revised the estimates of capital losses and ordinary deductions expected from the worthlessness deduction utilization. Accordingly, in 2004 TXU Corp. recorded a tax benefit of \$755 million (\$680 million classified as discontinued operations) related to the TXU Europe worthlessness deduction, which reflects expected utilization of the capital loss deduction against capital gains realized in 2004 and prior periods. The benefit recognized also included \$220 million for deductions related to the write-off of the investment in TXU Europe expected to be sustained as ordinary as a result of the preliminary notice.

The tax benefits recognized are based on the notice of proposed adjustment, adjusted to exclude the effects of elements of the IRS notice that TXU Corp. believes are without merit and unlikely to be sustained. While the notice of proposed adjustment is not binding on the IRS and therefore it is uncertain what positions the IRS might ultimately assert or what, if any, tax liability might result, TXU Corp. believes that the possibility of the IRS adopting a more adverse position is remote.

If TXU Corp.'s ordinary loss deduction claimed on the 2002 tax return is not sustained, TXU Corp. would be required to repay approximately \$480 million in tax refunds previously received (including interest) based on the assumptions used to determine the tax benefits recognized after receipt of the notice of proposed adjustments, and before taking into account other potential IRS adjustments to TXU Corp.'s 1997-2002 tax returns. In addition, TXU Corp. would owe additional tax of \$118 million related to 2004. These amounts are reported as other noncurrent liabilities in the December 31, 2005 balance sheet. No material earnings charge is expected with respect to any such repayment. TXU Corp. is unable to predict the timing of any such repayment, but currently expects that it would not be made prior to 2007.

TXU Corp. believes that its original tax reporting of the worthlessness of its investment in TXU Europe as an ordinary deduction was proper and intends to protest the IRS's proposed adjustments. If TXU Corp.'s position is sustained, approximately \$79 million would be recognized in earnings.

Labor Contracts — Certain TXU Energy Holdings and TXU Electric Delivery employees are represented by labor unions and covered by collective bargaining agreements with varying expiration dates. New one year labor agreements were reached in 2005 covering bargaining unit employees in TXU Energy Holdings' lignite/coal-fired and nuclear power production operations. Negotiations are currently underway with respect to the collective bargaining agreement covering bargaining unit employees in TXU Energy Holdings' mining operations. The TXU Electric Delivery bargaining agreement will expire in 2007 and wages and benefits are currently being negotiated. Management does not anticipate that any changes in collective bargaining agreements will have a material affect on TXU Corp.'s financial position, results of operations or cash flows; however, TXU Corp. is unable to predict the ultimate outcome of these labor negotiations.

Nuclear Insurance — With regard to liability coverage, the Price-Anderson Act (Act) provides financial protection for the public in the event of a significant nuclear power plant incident. The Act sets the statutory limit of public liability for a single nuclear incident at \$10.8 billion currently and requires nuclear power plant operators to provide financial protection for this amount. On August 8, 2005, President Bush signed the Energy Policy Act of 2005, which, among other things, extends the Act through December 31, 2025. As required, TXU Corp. provides this financial protection for a nuclear incident at Comanche Peak resulting in public bodily injury and property damage through a combination of private insurance and industry-wide retrospective payment plans. As the first layer of financial protection, TXU Corp. has \$300 million of liability insurance from American Nuclear Insurers (ANI), which provides such insurance on behalf of a major stock insurance company pool, Nuclear Energy Liability Insurance Association. The second layer of financial protection is provided under an industry-wide retrospective payment program called Secondary Financial Protection (SFP).

Under the SFP, each operating licensed reactor in the US is subject to an assessment of up to \$100.6 million, subject to increases for inflation every five years, in the event of a nuclear incident at any nuclear plant in the US. Assessments are limited to \$15 million per operating licensed reactor per year per incident. All assessments under the SFP are subject to a 3% insurance premium tax, which is not included in the above amounts.

With respect to nuclear decontamination and property damage insurance, NRC regulations require that nuclear plant license-holders maintain not less than \$1.1 billion of such insurance and require the proceeds thereof to be used to place a plant in a safe and stable condition, to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. TXU Corp. maintains nuclear decontamination and property damage insurance for Comanche Peak in the amount of \$3.4 billion, above which TXU Corp. is self-insured. The primary layer of coverage of \$500 million is provided by Nuclear Electric Insurance Limited (NEIL), a nuclear electric utility industry mutual insurance company. The remaining coverage includes premature decommissioning coverage provided by NEIL in the amount of \$2.25 billion and \$681 million from other insurance markets and foreign nuclear insurance pools. TXU Corp. is subject to a maximum annual assessment from NEIL for the above coverages of \$30.5 million.

TXU Corp. maintains Accidental Outage Insurance through NEIL to cover the additional costs of obtaining replacement power from another source if one or both of the units at Comanche Peak are out of service for more than twelve weeks as a result of covered direct physical damage. The coverage provides for weekly payments of \$3.5 million for the first fifty-two weeks and \$2.8 million for the next 110 weeks for each outage, respectively, after the initial twelve-week period. The total maximum coverage is \$490 million per unit. The coverage amounts applicable to each unit will be reduced to 80% if both units are out of service at the same time as a result of the same accident. Under this coverage, TXU Corp. is subject to a maximum annual assessment of \$8.6 million.

There have been some revisions made to the nuclear property and nuclear liability insurance policies regarding the maximum recoveries available for multiple terrorism occurrences. Under the NEIL policies, if there were multiple terrorism losses occurring within a one-year time frame, NEIL would make available one industry aggregate limit of \$3.24 billion plus any amounts it recovers from other sources up to the limits for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. Under the ANI liability policy, the liability arising out of terrorist acts will be subject to one industry aggregate limit of \$300 million that could be reinstated at ANI's option depending on prevailing risk circumstances and the balance in the Industry Credit Rating Plan reserve fund. Under the US Terrorism Risk Insurance Extension Act of 2005, the US government provides reinsurance with respect to acts of terrorism in the US for losses caused by an individual or individuals acting on behalf of foreign parties. In such circumstances, the NEIL and ANI terrorism aggregates would not apply.

Nuclear Decommissioning — TXU Corp.'s nuclear plant decommissioning costs are fully recoverable from customers of the regulated business. Through December 31, 2001, decommissioning costs were recovered from consumers based upon a 1992 site-specific study through rates placed in effect under TXU Corp.'s January 1993 rate increase request. Effective January 1, 2002, decommissioning costs are recovered through a tariff charged to REPs by TXU Electric Delivery based upon a 2000 redetermination of the 1997 site-specific study, adjusted for trust fund assets, as a component of delivery fees effective under TXU Corp.'s 2001 Unbundled Cost of Service filing. During the first quarter of 2005, an updated study of the cost to decommission TXU Corp.'s nuclear generating facility was completed by management. The updated study was filed with the Commission on June 17, 2005. The accompanying testimony concluded that no change to the nuclear decommissioning tariff is warranted at this time. In its July 6, 2005 filing, the Commission Staff concluded that the study is adequate, complies with the Commission's rules, and constitutes a compliance filing that does not require further process. On July 29, 2005, the Commission's Policy Development Division issued an order approving the decommissioning cost study and closing the docket.

See Note 3 for a discussion of the impact of SFAS 143 on accounting for nuclear decommissioning costs.

Legal Proceedings — On September 6, 2005 a lawsuit was filed in the United States District Court for the Northern District of Texas, Dallas Division against TXU Corp. and C. John Wilder. The complaint asserts claims on behalf of the plaintiffs and a putative class of owners of certain TXU Corp. securities who tendered such securities in connection with a tender offer conducted by TXU Corp. in 2004. The complaint alleged violations of the provisions of Sections 14(e), 10(b) and 20(a) of the Securities and Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and purported to assert a claim for alleged breach of fiduciary duty. An amended complaint dropped the claim for breach of fiduciary duty. The allegations relate to a tender offer conducted in September and October 2004 for certain equity-linked securities in which it was expressly disclosed that TXU Corp. management was evaluating whether it should recommend to the TXU Corp. board of directors that the board reevaluate TXU Corp.'s dividend policy. After the tender offer was closed, and consistent with the disclosure, TXU Corp. management did make a recommendation to the board to reevaluate TXU Corp. dividend policy and the board elected to increase the quarterly dividend. The plaintiffs in the litigation contend that such disclosure in connection with the tender offer was inadequate. While TXU Corp. is unable to estimate any possible loss or predict the outcome of this litigation, TXU Corp. believes the allegations are without merit and that the disclosure provided in connection with the tender offer regarding the evaluation of the dividend policy was complete and accurate at the time the tender offer was initiated as well as when it was closed. Accordingly, TXU Corp. intends to vigorously defend this litigation. The defendants have filed a Motion to dismiss the litigation which the plaintiffs responded to on January 20, 2006, however, the motion has not been fully briefed and will not be addressed by the Court until briefing is completed in the first quarter of 2006.

On March 18, 2005, TXU Corp. received a subpoena from the SEC. The subpoena requires TXU Corp. to produce documents and other information for the period from January 1, 2001 to March 31, 2003 relating to, among other things, the financial distress at TXU Europe during 2002 and the resulting financial condition of TXU Corp., TXU Corp.'s reduction of its quarterly dividend in October 2002, and the following two previously disclosed claims against TXU Corp. and certain other persons named in such claims: (i) a lawsuit brought in April 2003 by a former employee of TXU Portfolio Management, William J. Murray (Murray Litigation) and (ii) various consolidated lawsuits brought by various shareholders of TXU Corp. during late 2002 and January 2003 (Shareholders' Litigation). The documents accompanying the subpoena state that (i) the SEC is conducting a fact-finding inquiry for purposes of allowing it to determine whether there have been any violations of the federal securities laws and (ii) the request does not mean the SEC has concluded that TXU Corp. or any other person has violated the law. Although TXU Corp. cannot predict the outcome of the SEC inquiry, TXU Corp. does not believe there was any basis for the claims made in the Murray Litigation, which has now been settled. A final settlement stipulation was signed and filed with the Court in the Shareholders' Litigation and the Court has approved the settlement, although certain members of the settlement class who object to the approval of the settlement have appealed the Court's order approving the settlement. TXU Corp. has cooperated with the SEC and completed the production of the documents requested by the subpoena and has responded to the SEC's requests for information. In addition, on July 12, 2005, Mr. Erle Nye, formerly a director of TXU Corp. and formerly the CEO and Chairman of the Board of TXU Corp., received a similar "fact-finding" subpoena from the SEC. Mr. Nye has informed TXU Corp. that he has completed his response to the SEC.

On February 18, 2005, a lawsuit was filed by Utility Choice, L.P. and Cirro Group, Inc. in the United States District Court for the Southern District of Texas, Houston Division, against TXU Corp. and certain of its subsidiaries, as well as various other wholesale market participants doing business in ERCOT, claiming generally that defendants engaged in a variety of anticompetitive conduct, including market manipulation in violation of antitrust and other laws. TXU Corp. and its subsidiaries settled this matter in November 2005 and the suit has been dismissed as to TXU Corp. and its subsidiaries.

Between October 19 and December 30, 2004, ten lawsuits were filed in various California superior courts by purported customers against TXU Corp., TXU Energy Trading Company and TXU Energy Services and other marketers, traders, transporters and sellers of natural gas in California. Plaintiffs allege that beginning at least by the summer of 2000, defendants manipulated and fixed at artificially high levels natural gas prices in California in violation of the Cartwright Act and other California state laws. These lawsuits have been coordinated in the San Diego Superior Court with numerous other natural gas actions as "In re Natural Gas Anti-Trust Cases I, II, III, IV and V." Discovery has commenced in this litigation. TXU Corp. believes the claims against TXU Corp. and its subsidiaries are without merit and TXU Corp. intends to vigorously defend the lawsuits. TXU Corp. is, however, unable to estimate any possible loss or predict the outcome of these actions.

On July 7, 2003, a lawsuit was filed by Texas Commercial Energy (TCE) in the United States District Court for the Southern District of Texas, Corpus Christi Division, against TXU Energy Holdings and certain of its subsidiaries, as well as various other wholesale market participants doing business in ERCOT, claiming generally that defendants engaged in market manipulation, in violation of antitrust and other laws, primarily during the period of extreme weather conditions in late February 2003. An order granting TXU Energy Holdings' Motion to Dismiss based on the filed rate doctrine was entered on June 24, 2004. TCE appealed and the Fifth Circuit Court of Appeals affirmed the dismissal. TCE subsequently filed pleadings seeking further appellate review of this decision by the United States Supreme Court, however, the Supreme Court denied the appeal on January 9, 2006.

In November 2002 and February and March 2003, three lawsuits were filed in the United States District Court for the Northern District of Texas asserting claims under ERISA on behalf of a putative class of participants in and beneficiaries of various employee benefit plans of TXU Corp. These ERISA lawsuits have been consolidated, and a consolidated complaint was filed in February 2004 against TXU Corp., the directors of TXU Corp. serving during the putative class period as well as members of the TXU Thrift Plan Committee comprised of Peter B. Tinkham, Kirk R. Oliver, Biggs C. Porter, Diane J. Kubin, Barbara B. Curry and Richard Wistrand. The plaintiffs seek to represent a class of participants in such employee benefit plans during the period between April 26, 2001 and October 11, 2002. The plaintiffs filed an initial motion for class certification and, after class certification discovery was completed, the Court denied plaintiffs' initial class certification motion without prejudice and granted plaintiffs' leave to amend their complaint. Plaintiffs' second class certification motion was filed on the basis of their amended complaint and was also denied and the case was ordered dismissed without prejudice on September 29, 2005. The plaintiffs have filed an appeal of the dismissal to the Fifth Circuit Court of Appeals. TXU Corp. believes the claims are without merit and intends to vigorously defend the lawsuit. TXU Corp. is, however, unable to estimate any possible loss or predict the outcome of this action in the event the Fifth Circuit reverses the dismissal or the suit is refiled by the plaintiffs or others seeking to assert similar claims.

On October 23, 2002, a derivative lawsuit was filed by a purported shareholder on behalf of TXU Corp. in the 116th Judicial District Court of Dallas County, Texas, against TXU Corp., Erle Nye, Michael J. McNally, David W. Biegler, J.S. Farrington, William M. Griffin, Kerney Laday, Jack E. Little, Margaret M. Maxey, J.E. Oesterreicher, Charles R. Perry and Herbert H. Richardson. The plaintiff alleged breach of fiduciary duty, abuse of control, mismanagement, waste of corporate assets, and breach of duties of loyalty and good faith. The named individual defendants are current or former officers and/or directors of TXU Corp. The plaintiffs in such suit failed to make a demand upon the directors as is required by law and TXU Corp. never agreed to waive the requirements for such a demand nor took any action inconsistent with insistence upon a demand. The defendants filed pleadings seeking to have the case dismissed due to plaintiffs' failure to make the statutorily required presuit demand, however the Court had not ruled on the requested dismissal when the parties reached an agreement in principle to settle this litigation. The settlement is subject to the execution of mutually agreed settlement documents and submission of the proposed settlement to the Court for approval. The proposed settlement is expected to be submitted to the Court for approval in the first quarter of 2006.

In October, November and December 2002 and January 2003, a number of lawsuits were filed in, removed to or transferred to the United States District Court for the Northern District of Texas against TXU Corp. and certain of its officers. These lawsuits, referred to above as the Shareholders' Litigation, were consolidated and lead plaintiffs were appointed by the Court. The complaint alleged violations of the provisions of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and Section 11 and 12 of the Securities Act of 1933, as amended, relating to alleged materially false and misleading statements, including statements in prospectuses related to the offering by TXU Corp. of its equity-linked debt securities and common stock in May and June 2002. In addition to TXU Corp., Erle Nye, Michael J. McNally, V.J. Horgan, and Brian N. Dickie and directors Derek C. Bonham, J.S. Farrington, William M. Griffin, Kerney Laday, Jack E. Little, Margaret M. Maxey, J.E. Oesterreicher, Herbert H. Richardson and Charles R. Perry were named as defendants in the litigation. On January 20, 2005, TXU Corp. executed a memorandum of understanding pursuant to which (i) TXU Corp. made a one-time payment of \$150 million, of which \$101 million has now been reimbursed by insurance carriers, (ii) TXU Corp. agreed to make certain corporate governance changes, including heightened independence standards for directors, (iii) TXU Corp. denied any liability in connection with the lawsuits and (iv) the defendants are to be released from any claims or liabilities asserted in the litigation. TXU Corp. may receive some additional amounts from insurance carriers, which would further reduce the financial impact of the settlement to TXU Corp. A final settlement stipulation was filed with the Court and the Court entered an order April 11, 2005 granting preliminary approval of the settlement, conditionally certifying a class for purposes of the settlement and providing for notice to the class members. After such notice, the Court conducted a hearing on June 23, 2005 to consider final approval of the settlement and the Court granted the final approval on November 8, 2005. Certain members of the settlement class who objected to the plan of allocation, the plaintiffs' attorneys' fees and other matters related to the approval of the settlement have appealed the orders approving the settlement to the Fifth Circuit Court of Appeals.

In addition to the above, TXU Corp. is involved in various other legal and administrative proceedings in the normal course of business the ultimate resolution of which, in the opinion of management, should not have a material effect upon its financial position, results of operations or cash flows.

Environmental Contingencies — The federal Clean Air Act, as amended (Clean Air Act) includes provisions which, among other things, place limits on SO₂ and NO_x emissions produced by electricity generation plants. TXU Corp.'s capital requirements have not been significantly affected by the requirements of the Clean Air Act. In addition, all permits required for the air pollution control provisions of the 1999 Restructuring Legislation have been applied for and TXU Corp. has initiated a construction program to install control equipment to achieve the required reductions.

TXU Corp. must comply with environmental laws and regulations applicable to the handling and disposal of hazardous waste. TXU Corp. is in compliance with all current laws and regulations; however, the impact, if any, of any changes to existing regulations or the implementation of new regulations is not determinable. The costs to comply with environmental regulations can be significantly affected by the following external events or conditions:

- changes to existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters;
- the identification of sites requiring clean-up or the filing of other complaints in which TXU Corp. may be asserted to be a potentially responsible party.

10. STOCK-BASED COMPENSATION PLANS

The Long-Term Incentive Compensation Plan (LTIP) is a stock-based compensation plan providing discretionary awards (LTIP awards) of restricted stock and performance units payable in common stock for qualified management employees. In May 2005, shareholders approved the Omnibus Incentive Compensation Plan (OICP) as a replacement plan for the LTIP. TXU Corp. does not intend to issue additional LTIP awards. During 2005, 2004 and 2003, the Board of Directors granted OICP and LTIP awards that were issued subject to share price performance and vesting requirements over two and three year periods. The number of common shares to be ultimately distributed varies from 0% to either 175% or 200% of the initial number of 2005 OICP awards and from 0% to 200% of the initial number of 2004 and 2003 LTIP awards. For LTIP awards, the number of shares to be ultimately distributed is based on TXU Corp.'s total return to shareholders over the applicable period compared to the total returns provided by the companies comprising the Standard & Poor's 500 Electric Utilities Index (Index Method). For OICP awards, the number of shares to be ultimately distributed is based 50% on the Index Method and 50% on the aggregate three-year total shareholder return on TXU Corp. common stock. For a small number of employees under employment agreements, the number of shares is based on the Index Method. TXU Corp. has established restrictions that limit certain employees' opportunities to liquidate vested stock awards. For both restricted stock and performance unit awards, dividends over the vesting period are converted to equivalent shares of TXU Corp. common stock to be distributed upon vesting.

The maximum number of shares of stock for which OICP awards may be granted under the plan is 18,000,000, of which 17,583,030 shares remain authorized and available for future issuance. The maximum number of shares of common stock for which LTIP awards may be granted under the plan is 20,000,000 of which 3,236,012 shares remain authorized and available.

Effective with the 1997 merger of ENSERCH Corporation (subsequently TXU Gas) and TXU Corp., outstanding options for ENSERCH Corporation common stock were exchanged for options for 1,065,826 shares of TXU Corp.'s common stock (TXU Gas Stock Option Plan). The weighted average exercise price for outstanding options at the beginning and end of 2005 was \$11.25 and \$11.95, respectively, and the weighted average exercise price for forfeited/expired options was \$10.47. No further options have been, or will be, granted under this plan.

The following table presents information about these stock-based compensation plans:

	LTIP and OICP Awards	TXU Gas Stock Option Plan
Balance — December 31, 2002	3,065,982	52,412
Granted.....	3,801,200	—
Forfeited/expired.....	(1,031,182)	(5,064)
Vested/exercised	<u>(74,334)</u>	<u>—</u>
Balance — December 31, 2003	<u>5,761,666</u>	<u>47,348</u>
Granted.....	3,940,530	—
Forfeited/expired.....	(3,420,300)	(8,610)
Vested/Exercised	<u>(7,334)</u>	<u>(33,466)</u>
Balance — December 31, 2004	<u>6,274,562</u>	<u>5,272</u>
Granted.....	1,231,392	—
Forfeited/expired.....	(687,940)	(1,520)
Vested/Exercised	<u>(1,532,032)</u>	<u>(2,232)</u>
Balance — December 31, 2005	<u>5,285,982</u>	<u>1,520</u>
To vest/exercisable in — 2006	1,580,100	1,520
To vest/exercisable in — 2007	2,548,230	—
To vest/exercisable in — 2008	1,157,652	—
Weighted average fair-value — 2005		
Outstanding — Beginning of year.....	\$ 18.76	
Granted.....	\$ 20.68	
Forfeited	\$ 23.30	
Vested	\$ 25.55	
Outstanding — End of year	\$ 19.26	
Weighted average fair value of awards granted in:		
2003.....	\$ 2.73	
2004.....	\$ 3.49	
2005.....	\$ 20.68	

The above table reflects the weighted average fair value of the awards on the grant date. Principally because the 2003 and 2004 awards were converted to cash-settled awards during part of 2004 as discussed below, the weighted average fair value of the 2003 and 2004 awards outstanding at December 31, 2004 was \$28.91 and \$12.89, respectively.

For the 2004 reporting period, TXU Corp. early adopted SFAS 123R, which eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards and requires the measurement of the cost of such awards over the vesting period based on the grant-date fair value of the award. TXU Corp. adopted SFAS 123R using the modified retrospective method, which allows for application to only prior interim periods in the year of initial adoption and resulted in the recognition of a credit of \$15 million (\$10 million after-tax) cumulative effect of a change in accounting principle. For a portion of the 2004 period, the performance unit awards were payable in cash, but the awards were modified in December of 2004 and will be payable in TXU Corp. common stock.

TXU Corp. determined the fair value of its stock-based compensation awards utilizing a valuation model that takes into account three principal factors: the probability weighted expected number of shares to be distributed upon vesting, the risk of uncertainty during the vesting period, and the restrictions limiting liquidation of vested stock awards. Based on the fair values determined under this model, reported expense in 2005 and 2004 related to the awards totaled \$32 million and \$56 million (\$21 million and \$36 million after-tax, or \$0.04 and \$0.06 per share), respectively. As of December 31, 2005, unrecognized expense related to nonvested LTIP awards totaled \$35 million, which is expected to be recognized over a weighted average period of two years.

Compensation expense related to the awards totaled \$25 million in 2003 and was determined in accordance with the intrinsic value method under APB 25. Compensation expense over the vesting period was remeasured each reporting period based on the market price of the stock and the assumed number of shares distributable given the share price performance to date.

Had compensation expense for the awards and previously existing awards under the TXU Gas Stock Option Plan been determined based upon the fair value methodology prescribed under SFAS 123, TXU Corp.'s net income would not have been materially different for the year ended December 31, 2003.

11. INCOME TAXES

The components of TXU Corp.'s provisions for income taxes for continuing operations are as follows:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
US Federal.....	\$145	\$ 25	\$ 279
State.....	6	26	11
Non-US.....	<u>—</u>	<u>2</u>	<u>1</u>
Total.....	<u>151</u>	<u>53</u>	<u>291</u>
Deferred:			
US Federal.....	498	31	(16)
State.....	4	(19)	(1)
Non-US.....	<u>—</u>	<u>—</u>	<u>—</u>
Total.....	<u>502</u>	<u>12</u>	<u>(17)</u>
Investment tax credits.....	<u>(21)</u>	<u>(23)</u>	<u>(22)</u>
Total.....	<u>\$632</u>	<u>\$ 42</u>	<u>\$ 252</u>

Reconciliation of income taxes computed at the US federal statutory rate to provision for income taxes:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income from continuing operations before income taxes, extraordinary gain (loss) and cumulative effect of changes in accounting principles:			
Domestic.....	\$2,408	\$ 123	\$ 821
Non-US.....	<u>(1)</u>	<u>—</u>	<u>(3)</u>
Total.....	<u>\$2,407</u>	<u>\$ 123</u>	<u>\$ 818</u>
Income taxes at the US federal statutory rate of 35%.....	\$ 842	\$ 43	\$ 286
Losses on extinguishment of debt.....	—	107	—
Lignite depletion allowance.....	(33)	(25)	(25)
Recognition of benefits related to TXU Europe.....	(138)	(75)	—
Amortization of investment tax credits.....	(21)	(23)	(22)
Investment tax credits – deferred tax.....	6	6	6
Amortization (under regulatory accounting) of statutory rate changes.....	(7)	(8)	(8)
Medicare subsidy — other postretirement benefits.....	(9)	(11)	(1)
Compensation expense.....	(5)	18	—
State income taxes, net of federal tax benefit.....	7	5	6
Other, including audit settlements.....	<u>(10)</u>	<u>5</u>	<u>10</u>
Income tax expense.....	<u>\$ 632</u>	<u>\$ 42</u>	<u>\$ 252</u>
Effective tax rate.....	26.3%	34.1%	30.8%

TXU Europe — In 2004, TXU Corp. recognized tax benefits totaling \$755 million, of which \$680 million was classified as discontinued operations. The recognition of benefits was based on a preliminary notice of proposed adjustment issued by the IRS in June 2004. The notice proposes, among other things, that the worthlessness deduction for the write-off of the investment in TXU Europe claimed on the 2002 tax return as an ordinary loss be instead treated as a capital loss (deductible only against capital gains). TXU Corp. had previously not recognized in net income any benefit related to the TXU Europe write-off due to a number of uncertainties regarding the income tax effects.

The benefit recognized includes the effect of the expected utilization of the TXU Europe worthlessness deduction against the capital gains arising from the dispositions of TXU Australia and TXU Gas and other 2004 and prior year transactions.

Benefits arising from the resolution of uncertainty regarding utilization of deductions in the year the TXU Europe investment was written-off or in a prior year have been reported in discontinued operations. Additional such benefits arising from subsequent sales of businesses classified as discontinued operations have also been reported in discontinued operations. The \$75 million of tax benefit recognized in 2004 continuing operations relates to the capital gain arising from the sale of TXU Fuel, the operations of which have been classified as continuing operations.

In 2005, TXU Corp. recognized a \$138 million tax benefit related to the 2002 TXU Europe worthlessness deduction. The recognition of the tax benefit was based on the identification of tax planning strategies TXU Corp. would implement to ensure utilization of capital losses associated with the write-off of the investment in TXU Europe. Classification of this benefit in continuing operations is in accordance with SFAS 109.

Deferred income taxes provided for temporary differences based on tax laws in effect at December 31, 2005 and 2004, balance sheet dates are as follows:

	December 31,					
	2005			2004		
	Total	Current	Noncurrent	Total	Current	Noncurrent
Deferred Tax Assets						
Net operating loss (NOL) carryforwards	\$ 666	\$666	\$ —	\$ 684	\$ —	\$ 684
Alternative minimum tax credit carryforwards.....	651	—	651	638	—	638
Employee benefit liabilities.....	395	—	395	297	—	297
Unamortized investment tax credits.....	145	—	145	154	—	154
Capital loss carryforward	138	—	138	—	—	—
Deferred gain on sale of assets.....	136	—	136	150	—	150
Impairment of assets.....	119	—	119	70	—	70
State income taxes	11	—	11	11	—	11
Litigation liabilities	—	—	—	30	30	—
TXU Europe settlement liability	—	—	—	60	60	—
NOL valuation allowance.....	—	—	—	(167)	—	(167)
Other	370	58	312	469	94	375
Total.....	<u>2,631</u>	<u>724</u>	<u>1,907</u>	<u>2,396</u>	<u>184</u>	<u>2,212</u>
Deferred Tax Liabilities						
Book/tax depreciation differences.....	3,515	—	3,515	3,511	—	3,511
Commodity contract mark-to-market deduction	761	4	757	—	—	—
Deductions related to TXU Europe.....	592	—	592	592	—	592
Regulatory assets	538	—	538	595	—	595
State income taxes	32	—	32	46	—	46
Other	173	3	170	141	3	138
Total	<u>5,611</u>	<u>7</u>	<u>5,604</u>	<u>4,885</u>	<u>3</u>	<u>4,882</u>
Net Deferred Tax (Asset) Liability	<u>\$ 2,980</u>	<u>\$ (717)</u>	<u>\$ 3,697</u>	<u>\$ 2,489</u>	<u>\$ (181)</u>	<u>\$ 2,670</u>

	December 31,					
	2005			2004		
	Net Current Asset	Net Current Liability	Net Noncurrent Liability	Net Current Asset	Net Current Liability	Net Noncurrent Liability
Summary of Deferred Income Taxes						
US Federal	\$ 717	\$ —	\$ 3,676	\$ 181	\$ —	\$ 2,635
State	—	—	21	—	—	35
Total.....	<u>\$ 717</u>	<u>\$ —</u>	<u>\$ 3,697</u>	<u>\$ 181</u>	<u>\$ —</u>	<u>\$ 2,670</u>

At December 31, 2005, TXU Corp. had \$651 million of alternative minimum tax credit carryforwards (AMT) available to offset future tax payments. The AMT credit carryforwards have no expiration date. At December 31, 2005, TXU Corp. had net operating loss (NOL) carryforwards for federal income tax purposes of \$1.9 billion that expire as follows: \$1.2 billion in 2022, \$50 million in 2023, \$9 million in 2024 and \$640 million in 2025. The NOL carryforwards can be used to offset future taxable income. TXU Corp. fully expects to utilize all of its NOL carryforwards prior to their expiration dates.

The tax effect of the components included in accumulated other comprehensive income for the year ended December 31, 2005, was a net benefit of \$7 million.

TXU Corp.'s income tax returns are subject to examination by applicable tax authorities. The IRS is currently examining the tax years ended 1997 through 2002. In management's opinion, an adequate provision has been made for any future taxes that may be owed as a result of any examination.

See Note 9 under "Income Tax Contingencies" for discussion of tax matters related to TXU Europe and the status of IRS audits.

12. PENSION AND OTHER POSTRETIREMENT BENEFITS

TXU Corp. is the plan sponsor of, and a participating employer in, the TXU Retirement Plan (Retirement Plan), which provides benefits to most employees based on years of service and average earnings. The Retirement Plan is a defined benefit pension plan intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended (Code) and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees are eligible to participate in the Retirement Plan upon their completion of one year of service and the attainment of age 21. All benefits are funded by the participating employers. The Retirement Plan provides benefits to participants under one of two formulas: (i) a cash balance formula under which participants earn monthly contribution credits based on their compensation and a combination of their age and years of service, plus monthly interest credits, or (ii) a traditional defined benefit formula based on years of service and the average earnings of the three years of highest earnings. The cash balance interest component of the cash balance plan is variable and is determined using the yield on 30-year Treasury bonds.

All eligible employees hired after January 1, 2001 participate under the cash balance formula. Certain employees who, prior to January 1, 2002, participated under the traditional defined benefit formula, continue their participation under that formula. Under the cash balance formula, future increases in earnings will not apply to prior service costs. It is TXU Corp.'s policy to fund the plans on a current basis to the extent deductible under existing federal tax regulations. Such contributions, when made, are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future.

TXU Corp. also has supplemental retirement plans for management employees, the information for which is included in the data below.

In addition, eligible employees of TXU Corp. may participate in a qualified savings plan, the Thrift Plan. This plan is a participant-directed defined contribution profit sharing plan intended to qualify under Section 401(a) of the Code, and is subject to the provisions of ERISA. The Thrift Plan includes an employee stock ownership component. Under the terms of the Thrift Plan, as amended effective in 2002, employees who do not earn more than the IRS threshold compensation limit used to determine highly compensated employees may contribute, through pre-tax salary deferrals and/or after-tax payroll deductions, the lesser of 75% of their regular salary or wages or the maximum amount permitted under law. Employees who earn more than such threshold may contribute from 1% to 16% of their regular salary or wages. Employer matching contributions are also made in an amount equal to 100% of the first 6% of employee contributions for employees who are covered under the cash balance formula of the Retirement Plan, and 75% of the first 6% of employee contributions for employees who are covered under the traditional defined benefit formula of the Retirement Plan. Prior to January 1, 2006, employer matching contributions were invested in TXU Corp. common stock. Effective January 1, 2006, employees may reallocate or transfer all or part of their accumulated or future employer matching contributions to any of the plan's other investment options. TXU Corp.'s contributions to the Thrift Plan, including cash and TXU Corp. common stock, aggregated \$20 million for 2005, \$25 million for 2004 and \$29 million for 2003.

Minimum Pension Liability — The minimum pension liability represents the excess of the accumulated benefit obligation over the plans' assets and the liability already recorded under SFAS 87. This additional liability is recorded as an adjustment to shareholders' equity, as a component of other accumulated other comprehensive income or as a regulatory asset/liability. Based on the actuarial information at year-end 2005 and 2004, minimum pension liability adjustments recorded to other comprehensive income were a loss of \$46 million and a gain of \$24 million, respectively, net of tax.

Additionally, due to Texas legislation enacted in the second quarter of 2005, TXU Electric Delivery recorded a regulatory asset of \$66 million, net of tax for its minimum pension liability as of December 31, 2005. See discussion below under “Regulatory Recovery of Pension and Other Postretirement Benefit Costs.”

The recording of the total liability did not affect TXU Corp.’s financial covenants in any of its credit agreements.

Assumed Discount Rate — The discount rate reflected in net pension and other postretirement benefit costs in 2005 is 6.00%. During 2004, the discount rate assumption for the pension and other postretirement benefit plans was revised as a result of remeasurements required by the Capgemini and TXU Gas transactions and changing interest rates. For the first half of 2004, the discount rate was 6.25%. The rate used for the third quarter was 6.5%, and the rate used in the fourth quarter was 6.0%. In selecting the assumed discount rate, TXU Corp. considered fixed income security yields for an Aa rated portfolio of bonds as reported by Moody’s.

	Year Ended December 31,		
	2005	2004	2003
<i>Assumptions used to determine net periodic benefit cost:</i>			
Discount rate	6.00%	6.00% - 6.50%	6.25%
Expected return on pension plan assets	8.75%	8.50%	8.50%
Rate of compensation increase	3.31%	3.57%	3.95%
<i>Assumptions used to determine benefit obligations at December 31:</i>			
Discount rate	5.75%	6.00%	6.25%
Rate of compensation increase	3.32%	3.57%	3.95%

Defined Benefit Plans —Information regarding defined benefit pension plans, based on December 31 measurement dates, follows:

	Year Ended December 31,		
	2005	2004	2003
<i>Components of Net Pension Costs:</i>			
Service cost	\$ 37	\$ 46	\$ 48
Interest cost	130	130	126
Expected return on assets	(145)	(142)	(142)
Amortization of unrecognized net transition asset	—	—	(1)
Amortization of unrecognized prior service cost	3	4	5
Amortization of net loss	20	13	7
Recognized settlement loss	—	—	2
Recognized curtailment loss	1	7	—
Net periodic pension cost	<u>\$ 46</u>	<u>\$ 58</u>	<u>\$ 45</u>
<i>Change in Pension Obligation:</i>			
Projected benefit obligation at beginning of year	\$2,218	\$2,173	
Service cost	37	46	
Interest cost	130	130	
Actuarial (gain) loss	195	(30)	
Benefits paid	(128)	(108)	
Curtailments	—	7	
Settlements	(12)	—	
Projected benefit obligation at end of year	<u>\$2,440</u>	<u>\$2,218</u>	
Accumulated benefit obligation at end of year	<u>\$2,277</u>	<u>\$2,079</u>	
<i>Change in Plan Assets:</i>			
Fair value of assets at beginning of year	\$1,995	\$1,819	
Actual return on assets	121	231	
Employer contributions	3	51	
Benefits paid	(128)	(106)	
Settlements	(9)	—	
Fair value of assets at end of year	<u>\$1,982</u>	<u>\$1,995</u>	
<i>Funded Status:</i>			
Projected pension benefit obligation	\$(2,440)	\$(2,218)	
Fair value of assets	1,982	1,995	
Unrecognized prior service cost	8	15	
Unrecognized net loss	357	158	
Accrued pension cost	<u>\$ (93)</u>	<u>\$ (50)</u>	
<i>Amounts Recognized in the Balance Sheet Consist of:</i>			
Prepaid benefit cost	\$ 8	\$ 8	
Accrued benefit liability	(304)	(92)	
Intangible asset	9	12	
Regulatory asset	66	—	
Accumulated other comprehensive loss	60	14	
Accumulated deferred income taxes	68	8	
Net amount recognized	<u>\$ (93)</u>	<u>\$ (50)</u>	

The following table provides information regarding pension plans with projected benefit obligation (PBO) and accumulated benefit obligation (ABO) in excess of the fair value of plan assets.

	Year Ended December 31,	
	2005	2004
<i>Pension Plans with PBO and ABO in Excess of Plan Assets :</i>		
Projected benefit obligation	\$2,435	\$2,201
Accumulated benefit obligation	2,271	2,062
Plan assets	1,967	1,971

Regulatory Recovery of Pension and Other Postretirement Benefit Costs — In June 2005, an amendment to the Public Utility Regulatory Act (PURA) relating to pension and other postretirement benefits was enacted by the Texas Legislature. This amendment provides for the recovery by TXU Electric Delivery of pension and other postretirement benefit costs for all applicable former employees of the regulated predecessor integrated electric utility (i.e., certain TXU Energy Holdings active and retired employees). The amendment additionally authorizes TXU Electric Delivery to establish a regulatory asset or liability for the difference between the amounts of pension and other postretirement benefits approved in current billing rates and the actual amounts that would otherwise have been recorded as charges or credits to earnings. Accordingly, in the second quarter of 2005 TXU Electric Delivery began deferring (principally as a regulatory asset or property) additional pension and postretirement benefit costs for the effect of the amendment, which was retroactively effective January 1, 2005. Amounts deferred are ultimately subject to regulatory approval.

Asset Allocations - The weighted-average asset allocations of pension plans at December 31, 2005 and 2004, by asset category are as follows:

Asset Type	Allocation of Plan Assets		Target Allocation Ranges	Expected Long-term Returns
	2005	2004		
US equity.....	49.9%	52.1%	40%-75%	9.5%
International equity.....	16.0%	14.5%	5%-20%	10.0%
Fixed income.....	29.4%	29.1%	15%-50%	6.8%
Real estate.....	4.7%	4.3%	0%-10%	8.0%
	<u>100.0%</u>	<u>100.0%</u>		8.75%

Expected Long-term Rate of Return on Assets Assumption — TXU Corp. considered both historical returns and future expectations for returns of various asset classes in its determination of the expected long-term rate of return assumption. A key expectation is that current interest rates will move towards an equilibrium interest rate that produces a 6% yield on intermediate government bonds. Expected returns for other asset classes are based on incremental returns over such expected government bond yield. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return assumption for the portfolio.

Investment Strategy — The investment objective is to provide a competitive return on the assets in each plan, while at the same time preserving the value of those assets. The strategy is to invest a third of the assets in fixed income and two thirds in equity, while maintaining sufficient cash to pay benefits and expenses.

The fixed income assets are diversified by sector and security, are intermediate in duration, and maintain an average quality rating of at least “A” (as determined by a major ratings agency such as Moody’s). The allocation to fixed income assets also includes an allocation to income producing real estate through private, unlevered real estate investment trusts. The equity assets are diversified by size, style and location with a conservative bias toward value securities.

Contributions in 2006 — Estimated funding in 2006 is \$3 million for the pension plan and \$48 million for the other postretirement benefit plan.

Postretirement Benefits Other Than Pensions — In addition to the Retirement Plan and the Thrift Plan, TXU Corp. offers health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. For employees retiring on or after January 1, 2002, the retiree contributions required for such coverage vary based on a formula depending on the retiree's age and years of service.

	Year Ended December 31,		
	2005	2004	2003
<i>Assumptions used to determine net periodic benefit cost:</i>			
Discount rate	6.00%	6.00% - 6.50%	6.25%
Expected return on plan assets.....	8.67%	8.66%	8.01%
<i>Components of Net Periodic Postretirement Benefit Costs:</i>			
Service cost	\$13	\$15	\$ 18
Interest cost	56	60	63
Expected return on assets.....	(20)	(18)	(15)
Amortization of unrecognized net transition obligation.....	1	2	4
Amortization of unrecognized prior service cost/(credit)	(3)	(2)	1
Amortization of net loss.....	24	25	29
Recognized curtailment gain	—	\$ (2)	—
Net postretirement benefit cost.....	<u>\$71</u>	<u>\$ 80</u>	<u>\$100</u>
<i>Assumptions used to determine benefit obligations at December 31:</i>			
Discount rate	5.75%	6.00% - 6.50%	6.25%
<i>Change in Postretirement Benefit Obligation:</i>			
Benefit obligation at beginning of year	\$ 987	\$1,002	
Service cost	13	15	
Interest cost	56	60	
Participant contributions.....	16	11	
Actuarial loss	62	31	
Benefits paid	(69)	(70)	
Curtailments	—	(62)	
Benefit obligation at end of year	<u>\$1,065</u>	<u>\$ 987</u>	
<i>Change in Plan Assets:</i>			
Fair value of assets at beginning of year	\$229	\$206	
Actual return on assets.....	12	27	
Employer contributions.....	52	52	
Participant contributions.....	14	9	
Benefits paid	(62)	(65)	
Fair value of assets at end of year.....	<u>\$245</u>	<u>\$229</u>	
<i>Funded Status:</i>			
Benefit obligation.....	\$(1,065)	\$ (987)	
Fair value of assets.....	245	229	
Unrecognized net transition obligation.....	10	11	
Unrecognized prior service credit.....	(14)	(16)	
Unrecognized net loss	387	342	
Accrued postretirement benefit cost.....	<u>\$ (437)</u>	<u>\$ (421)</u>	

The following tables provide information regarding the assumed health care cost trend rates.

	<u>Not Medicare Eligible</u>		<u>Medicare Eligible</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>Assumed Health Care Cost Trend Rates :</i>				
Health care cost trend rate assumed for next year	8%	10%	9%	11%
Rate to which the cost trend is expected to decline (the ultimate trend rate)	5%	5%	5%	5%
Year that the rate reaches the ultimate trend rate	2010	2010	2012	2011

	<u>1-Percentage</u>	<u>1-Percentage</u>
	<u>Point Increase</u>	<u>Point Decrease</u>
<i>Sensitivity Analysis of Assumed Health Care Cost Trend Rates :</i>		
Effect on accumulated other postretirement obligation.....	\$128	\$(106)
Effect on other postretirement benefits cost	9	(7)

TXU Corp.'s other postretirement benefit plan weighted average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

<u>Asset Type</u>	<u>Allocation of Plan Assets</u>	
	<u>2005</u>	<u>2004</u>
US equity.....	57.3%	58.0%
International equity	7.7%	6.6%
Fixed income.....	32.8%	33.5%
Real estate	2.2%	1.9%
	<u>100.0%</u>	<u>100.0%</u>

<u>Plan Type</u>	<u>Expected Long-term Returns</u>
401(h) accounts	8.75%
Life Insurance VEBA	8.75%
Union VEBA	8.75%
Non-Union VEBA	4.50%
Insurance Continuation Reserve	6.25%
	8.67%

Investment strategy and the basis used to determine the expected long-term return on assets for postretirement benefit plans is similar to that discussed above for the pension plans.

Information regarding net pension and other postretirement benefit costs recognized as expense follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Pension costs under SFAS 87.....	\$ 46	\$ 58	\$ 45
Other postretirement benefit costs under SFAS 106.....	71	80	100
Total benefit costs.....	\$ 117	\$ 138	\$ 145
Less amounts deferred principally as a regulatory asset or property.....	(58)	(27)	(26)
Net amounts recognized as expense	<u>\$ 59</u>	<u>\$ 111</u>	<u>\$ 119</u>

Future Benefit Payments— Estimated future benefit payments to beneficiaries are as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-15</u>
Pension benefits	\$103	\$108	\$112	\$118	\$124	\$732
Other postretirement benefits.....	\$59	\$62	\$64	\$67	\$70	\$392

Medicare Act — The Medicare Prescription and Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was enacted in December 2003. TXU Corp. is accounting for the effects of the Medicare Act in accordance with FSP 106-2. The effect of the adoption of the Medicare Act was a reduction in TXU Corp.'s other postretirement benefit costs of approximately \$25 million and \$28 million in 2005 and 2004, respectively. TXU Corp. elected to immediately reflect the financial impact of the enacted Medicare Act in the accounting for other postretirement benefit costs, resulting in a \$1.9 million reduction in expense in 2003 and a reduction in the accumulated postretirement benefit obligation of \$142 million in accordance with FSP 106-1, subsequently superseded by FSP 106-2.

13. INVESTMENTS

The following information is a summary of the investment balance as of December 31, 2005 and 2004:

	December 31,	
	2005	2004
Nuclear decommissioning trust.....	\$ 389	\$ 361
Land.....	35	84
Assets related to employee benefit plans.....	178	155
Note receivable from Capgemini.....	25	25
Investment in Capgemini.....	3	3
Other notes receivable.....	1	11
Miscellaneous other.....	12	25
Total investments.....	<u>\$ 643</u>	<u>\$ 664</u>

Capgemini Agreement — In May 2004, TXU Corp. entered into a services agreement with Capgemini to outsource certain support activities. As part of the agreement, Capgemini was provided a royalty-free right, under an asset license arrangement, to use TXU Corp.'s information technology assets, consisting primarily of computer software. TXU Corp. obtained a 2.9% limited partnership interest in Capgemini in exchange for the asset license. TXU Corp. has the right to sell (the put option) its interest and the licensed software to Cap Gemini North America Inc. for \$200 million, plus its share of Capgemini's undistributed earnings, upon expiration of the services agreement or earlier upon the occurrence of certain unexpected events. Cap Gemini North America Inc. has the right to purchase these interests under the same terms and conditions. The partnership interest has been recorded at an initial value of \$2.9 million and is being accounted for on the cost method.

TXU Corp. recorded the fair value of the put option, estimated to be \$177 million, as a noncurrent asset. Of this amount, \$169 million was recorded as a reduction to the carrying value of the licensed software, and the balance, which represents the fair value of the assumed cash distributions and gains while holding the partnership interest, was recorded as a noncurrent deferred credit. This accounting is in accordance with AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

In July 2004, TXU Corp. loaned Capgemini \$25 million for working capital purposes pursuant to a promissory note that bears interest at an annual rate of 4% and matures in July 2019.

Subject to certain terms and conditions, Cap Gemini North America, Inc. and its parent, Cap Gemini S.A., have guaranteed the performance and payment obligations of Capgemini under the services agreement, as well as payments under the put option.

Nuclear Decommissioning Trust — Deposits in a trust fund for costs to decommission the Comanche Peak nuclear-powered generation plant are carried at fair value. Decommissioning costs are being recovered from TXU Electric Delivery's customers as a delivery fee charge over the life of the plant and deposited in the trust fund. Net gains and losses on investments in the trust fund are offset by a corresponding adjustment to a regulatory asset/liability. A summary of investments in the fund as of December 31, 2005 and 2004 follows:

	December 31, 2005			
	<u>Cost (a)</u>	<u>Unrealized gain</u>	<u>Unrealized (loss)</u>	<u>Fair market value</u>
Debt securities	\$ 151	\$ 5	\$ (1)	\$ 155
Equity securities	<u>156</u>	<u>90</u>	<u>(12)</u>	<u>234</u>
Total	<u>\$ 307</u>	<u>\$ 95</u>	<u>\$ (13)</u>	<u>\$ 389</u>

	December 31, 2004			
	<u>Cost (a)</u>	<u>Unrealized gain</u>	<u>Unrealized (loss)</u>	<u>Fair market value</u>
Debt securities	\$ 142	\$ 7	\$ (1)	\$ 148
Equity securities	<u>143</u>	<u>82</u>	<u>(12)</u>	<u>213</u>
Total	<u>\$ 285</u>	<u>\$ 89</u>	<u>\$ (13)</u>	<u>\$ 361</u>

(a) Includes realized gains and losses of securities sold.

Debt securities held at December 31, 2005 mature as follows: \$68 million in one to five years, \$35 million in five to ten years and \$52 million after ten years.

Assets Related to Deferred Compensation Plans — The majority of these assets represent cash surrender values of life insurance policies that are purchased to fund liabilities under deferred compensation plans. TXU Corp. pays the premiums and is the beneficiary of these life insurance policies. As of December 31, 2005 and 2004, the face amount of these policies was \$521 million and \$504 million, and the net cash surrender values were \$151 million and \$134 million, respectively. Changes in cash surrender value are netted against premiums paid. Other investment assets held to satisfy deferred compensation liabilities are recorded at market value.

14. FAIR VALUE OF NONDERIVATIVE FINANCIAL INSTRUMENTS

The carrying amounts and related estimated fair values of TXU Corp.'s significant nonderivative financial instruments were as follows:

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
On balance sheet assets (liabilities):				
Long-term debt (including current maturities) (a) (b)	\$ (12,479)	\$ (12,891)	\$ (12,632)	\$ (13,330)
LESOP note receivable (see Note 8)	\$ 220	\$ 259	\$ 229	\$ 286
Off balance sheet assets (liabilities):				
Financial guarantees	\$ —	\$ (8)	\$ —	\$ (7)
Accelerated share repurchase agreement (See Note 8)	\$ —	\$ —	\$ —	\$ 13
(a) Excludes capital leases.				
(b) Includes stock purchase contracts related to equity-linked debt.				

See Note 1 for discussion of accounting for financial instruments that are derivatives.

The fair values of on balance sheet instruments are estimated at the lesser of either the call price or the market value as determined by quoted market prices, where available, or, where not available, at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risk.

The fair value of each financial guarantee is based on the difference between the credit spread of the entity responsible for the underlying obligation and a financial counterparty applied, on a net present value basis, to the notional amount of the guarantee.

The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments, including the Capgemini put option, for which carrying amounts and fair values have not been presented are not materially different than their related carrying amounts.

15. CASH FLOW HEDGES UNDER SFAS 133

TXU Corp. experienced net cash flow hedge ineffectiveness related to positions held at the end of the period of \$31 million of losses in 2005, \$21 million of losses in 2004 and \$6 million of gains in 2003. These amounts are pretax and are reported in revenues.

The net effect of recording unrealized mark-to-market gains and losses arising from hedge ineffectiveness (versus recording gains and losses upon settlement) includes the above amounts as well as the effect of reversing unrealized ineffectiveness gains and losses recorded in previous periods to offset realized gains and losses in the current period. Such net effect totaled \$27 million in net losses in 2005, \$19 million in net losses in 2004 and \$36 million in net gains in 2003.

TXU Corp. has no hedging positions against exposure to the variability of future cash flows from energy-related transactions that extend more than five years.

Cash flow hedge amounts reported in accumulated other comprehensive income will be recognized in earnings as the related forecasted transactions are settled or become probable of not occurring. No amounts were reclassified into earnings in 2005, 2004 or 2003 as a result of the discontinuance of cash flow hedges because it was probable that a hedged forecasted transaction would not occur.

Cash flow hedge amounts reported in other comprehensive income exclude net losses and gains associated with cash flow hedges entered into and settled within the year. These totaled \$53 million in net losses in 2005, \$1 million in net gains in 2004 and \$116 million in net losses in 2003.

TXU Corp. expects that \$15 million of after-tax net gains accumulated in other comprehensive income will be reclassified into earnings during the next twelve months. These net gains relate to cash flow hedges and will be reclassified from accumulated other comprehensive income as the related hedged transactions are settled. Of this amount, \$23 million of gains relate to commodity hedges and \$8 million of losses relate to financing-related hedges. The following table summarizes balances currently recognized in accumulated other comprehensive loss:

	Accumulated Other Comprehensive Loss at December 31, 2005		
	Commodity- related	Interest- related	Total
Dedesignated hedges (amounts fixed)	\$ 24	\$ 65	\$ 89
Hedges subject to market price fluctuations	<u>53</u>	<u>—</u>	<u>53</u>
Total	<u>\$ 77</u>	<u>\$ 65</u>	<u>\$ 142</u>

16. TEXAS ELECTRIC INDUSTRY RESTRUCTURING

Restructuring Legislation

As a result of the 1999 Restructuring Legislation, on January 1, 2002, TXU Corp. disaggregated (unbundled) its Texas electric utility business into a power generation company, a retail electric provider and an electricity transmission and distribution (delivery) utility. Unbundled electricity delivery utilities within ERCOT, such as TXU Electric Delivery, remain regulated by the Commission.

Effective January 1, 2002, REPs affiliated with electricity delivery utilities were required to charge price-to-beat rates, established by the Commission, to residential and small business customers located in their historical service territories. TXU Energy Holdings, whose REP is affiliated with an electricity delivery utility, was required to charge the price-to-beat rate, adjusted for fuel factor changes, to such classes of customers until the earlier of January 1, 2005 or the date on which 40% of the electricity consumed by customers in that class is supplied by competing REPs. Currently, TXU Energy Holdings may offer rates different from the price-to-beat rate but it must also continue to make the price-to-beat rate available for residential and small business customers until January 1, 2007.

Under amended Commission rules, effective in April 2003, affiliated REPs of electricity delivery utilities are allowed to petition the Commission twice a year for a change in the fuel factor component of their price-to-beat rates if the average price of natural gas futures increases or decreases more than 5% (10% if the petition is filed after November 15 of any year) from the level used to set the existing fuel factor component of its price-to-beat rate. The fuel factor adjustment mechanism is intended to encourage full and fair competition among REPs. With fuel factor adjustments, the price-to-beat rate is not expected to be below the market rate, and this mechanism allows for new competitors to enter the marketplace and effectively compete for retail customers.

- TXU Energy Holdings implemented two price-to-beat rate increases in 2003 and 2004. Price-to-beat rate increases (expressed as a percent adjustment in the average monthly residential bill) implemented in March and August of 2003 were 12% and 4%, respectively, and in May and August of 2004 were 3% and 6%, respectively.
- TXU Energy Holdings also implemented two price-to-beat rate increases in 2005. The first, implemented in May, raised the average monthly residential bill by 10%. The second increase, approved on October 28, reflected the voluntary discount agreed to by TXU Energy Holdings and raised the average monthly residential bill by 12% for the remainder of 2005. On January 1, 2006, the voluntary discount expired, raising the average monthly residential bill by an additional 12%.

To encourage competition in the ERCOT region, each incumbent power generation company owning 400 MW or more of installed generating capacity must annually offer to sell at auction entitlements to 15% of the output of its installed generating capacity. Such auction sales cannot be to an affiliated REP. The obligation of TXU Energy Holdings to sell capacity entitlements at auction continues until the earlier of January 1, 2007 or the date the Commission determines that 40% or more of the electric power consumed by residential and small business customers within the affiliated delivery utility certificated service area before the onset of customer choice is provided by nonaffiliated REPs. These auctions have resulted in TXU Energy Holdings selling power at prices below wholesale market prices. In October 2005, TXU Energy Holdings filed a petition with the Commission seeking an administrative determination by the Commission that this 40% threshold condition has been achieved. In December 2005, the Commission ruled in a preliminary order that the methodology for determining the 40% threshold proposed by TXU Energy Holdings was correct. This matter has been referred to the State Office of Administrative Hearings (SOAH) to validate TXU Energy Holdings' threshold calculation. ERCOT staff has validated TXU Energy Holdings' calculation and the SOAH administrative law judge has recommended that the Commission grant TXU Power's petition, but final Commission action has not yet occurred. TXU Energy Holdings expects a decision from the Commission in early 2006.

Also, effective January 1, 2002, power generation companies affiliated with electricity delivery utilities may charge unregulated prices in connection with ERCOT wholesale power transactions. Estimated costs associated with TXU Energy Holdings' nuclear power plant decommissioning obligations continue to be recovered by TXU Electric Delivery (on behalf of TXU Energy Holdings) as an electricity distribution fee surcharge over the life of the plant.

Regulatory Settlement Plan

On December 31, 2001, TXU Corp. filed a Settlement Plan with the Commission. It resolved all major pending issues related to TXU Corp.'s transition to competition pursuant to the 1999 Restructuring Legislation. The Settlement Plan does not remove regulatory oversight of TXU Electric Delivery's business nor does it eliminate TXU Energy Holdings' price-to-beat rates and related fuel adjustments. The Settlement Plan became final and nonappealable in January 2003.

Major elements of the Settlement Plan included:

Stranded Costs and Fuel Cost Recovery — Under the Settlement Plan, TXU Corp.'s stranded costs, not including regulatory assets, are fixed at zero. TXU Corp. also agreed to not seek recovery of its unrecovered fuel costs which existed at December 31, 2001 and to not conduct a final fuel cost reconciliation, which would have covered the period from July 1998 until the beginning of competition in January 2002.

Excess Mitigation Credit — Over the two-year period ended December 31, 2003, TXU Electric Delivery implemented a stranded cost excess mitigation credit in the amount of \$389 million (originally estimated to be \$350 million), plus \$26 million in interest, applied as a reduction to distribution fees charged to all REPs, including TXU Energy Holdings. The credit was funded through payments on a note receivable from TXU Energy Holdings.

Regulatory Asset Securitization — TXU Corp. received a financing order authorizing the issuance of securitization (transition) bonds in the aggregate principal amount of up to \$1.3 billion to recover regulatory asset stranded costs and other qualified costs. Accordingly, TXU Electric Delivery Transition Bond Company LLC, a bankruptcy remote financing subsidiary of TXU Electric Delivery, issued an initial \$500 million of securitization bonds in 2003 and the remaining \$790 million in the first half of 2004. The principal and interest on the bonds are recoverable through revenues as a transition charge to all REPs, including TXU Energy Holdings. There is no remaining issuance authorization under the financing order.

Retail Clawback Credit — In connection with the opening of the Texas market to competition, the Texas Legislature established a retail clawback provision intended to incent affiliated REPs of electricity delivery utilities to actively compete for customers outside their historical service territories. A retail clawback liability arose unless 40% of the electricity consumed by residential and small business customers in the affiliated REP's historical service territory was supplied by competing REPs after the first two years of competition. This threshold was reached for small business customers in 2003, but not for residential customers. The amount of the liability was equal to the number of such customers retained by TXU Energy Holdings as of January 1, 2004, less the number of new customers from outside the historical service territory, multiplied by \$90. The credit, which was funded by TXU Energy Holdings, was applied to delivery fees charged by TXU Electric Delivery to REPs, including TXU Energy Holdings, over a two-year period beginning January 1, 2004. In 2002, TXU Energy Holdings recorded a charge to fuel, purchased power and delivery fees of \$185 million (\$120 million after-tax) to accrue an estimated retail clawback liability. In 2003, TXU Energy Holdings reduced the accrual by \$12 million (\$8 million after-tax), to reflect the calculation of the estimated liability applicable only to residential customers in accordance with the Settlement Plan. In 2004, TXU Energy Holdings further reduced the estimated liability by \$12 million (\$8 million after-tax) to reflect revised estimates of customer counts. There is no remaining liability as of December 31, 2005.

17. SEGMENT INFORMATION

TXU Corp.'s operations are aligned into two reportable segments: TXU Energy Holdings and TXU Electric Delivery. The segments are managed separately because they are strategic business units that offer different products or services and involve different risks.

TXU Energy Holdings – consists of electricity generation, residential and business retail electricity sales as well as wholesale energy markets activities, largely in Texas.

TXU Electric Delivery – consists of regulated operations involving the transmission and distribution of electricity in Texas.

Corporate and Other – remaining nonsegment operations consisting primarily of discontinued operations, general corporate expenses and interest on debt at the TXU Corp. level.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. TXU Corp. evaluates performance based on income from continuing operations. TXU Corp. accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

	TXU Energy Holdings	TXU Electric Delivery	Corp. and Other	Eliminations	Consolidated
Operating Revenues					
2005	\$9,327	\$2,394	\$30	\$(1,314)	\$10,437
2004	8,495	2,226	31	(1,444)	9,308
2003	7,986	2,087	16	(1,489)	8,600
Regulated Revenues – Included in Operating Revenues					
2005	—	2,394	—	(1,278)	1,116
2004	—	2,226	—	(1,420)	806
2003	—	2,087	—	(1,488)	599
Affiliated Revenues – Included in Operating Revenues					
2005	9	1,278	27	(1,314)	—
2004	3	1,420	21	(1,444)	—
2003	(4)	1,488	5	(1,489)	—
Depreciation and Amortization					
2005	313	446	17	—	776
2004	350	389	21	—	760
2003	407	297	20	—	724
Equity in Earnings (Losses) of Unconsolidated Subsidiaries					
2005	(7)	(3)	(1)	11	—
2004	(5)	(2)	1	7	1
2003	(1)	—	(16)	—	(17)
Interest Income					
2005	70	59	99	(180)	48
2004	31	56	77	(136)	28
2003	8	52	38	(62)	36
Interest Expense and Related Charges					
2005	393	269	320	(180)	802
2004	353	280	198	(136)	695
2003	323	300	223	(62)	784
Income Tax Expense (Benefit)					
2005	687	174	(229)	—	632
2004	162	116	(236)	—	42
2003	231	126	(105)	—	252
Income from Continuing Operations					
Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles					
2005	1,430	351	(6)	—	1,775
2004	408	255	(582)	—	81
2003	497	258	(189)	—	566
Investment in Equity Investees					
2005	—	—	—	—	—
2004	—	—	1	—	1
2003	1	—	1	—	2
Total Assets (a)					
2005	17,806	9,911	1,838	(4,016)	25,539
2004	14,473	9,493	1,860	(2,637)	23,189
2003	14,148	9,316	9,508	(1,688)	31,284

	TXU Energy <u>Holdings</u>	TXU Electric <u>Delivery</u>	Corp. and <u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
Capital Expenditures					
2005	309	733	5	—	1,047
2004	281	600	31	—	912
2003	163	543	15	—	721

(a) Assets by segment exclude investments in affiliates.

18. OTHER INCOME AND DEDUCTIONS

Other Income and Deductions —

	Year Ended December 31,		
	2005	2004	2003
Other income:			
Net gain on sale of properties and businesses	\$ 82	\$ 134	\$ 45
Insurance recovery of litigation settlement	35	—	—
Insurance recovery on damage claim	8	—	—
Gain on sale of investment	7	—	—
Power sale agreement termination fee	4	—	—
Sales tax refunds	4	—	—
Equity portion of allowance for funds used during construction	3	4	4
Other	8	10	9
Total other income	<u>\$ 151</u>	<u>\$ 148</u>	<u>\$ 58</u>
Other deductions:			
Asset writedown and lease termination charges (credit)	\$ (16)	\$ 376	\$ —
Equity losses of unconsolidated subsidiaries	—	—	17
Debt extinguishment losses (a)	—	416	4
Litigation settlements	7	84	—
Employee severance charges	1	132	—
Power purchase contract termination charge	—	101	—
Cities rate settlement	1	21	—
Capgemini outsourcing transition costs	14	14	—
Transaction-related fees	—	5	—
Expenses related to canceled construction projects	—	6	6
Premium on redemption of preferred stock	—	—	3
Pension and other postretirement costs related to discontinued business	15	—	—
Charge related to coal contract counterparty nonperformance	12	—	—
Other	11	17	12
Total other deductions	<u>\$ 45</u>	<u>\$ 1,172</u>	<u>\$ 42</u>

(a) Of the 2004 amount of \$416 million, \$8 million represents cost associated with the settlement of equity-linked securities litigation.

19. SUPPLEMENTARY FINANCIAL INFORMATION

Regulated Versus Unregulated Operations —

	Year Ended December 31,		
	2005	2004	2003
Operating revenues			
Regulated	\$ 2,394	\$ 2,226	\$ 2,087
Unregulated	9,357	8,526	8,002
Intercompany sales eliminations – regulated	(1,278)	(1,420)	(1,488)
Intercompany sales eliminations – unregulated	(36)	(24)	(1)
Total operating revenues	<u>10,437</u>	<u>9,308</u>	<u>8,600</u>
Costs and operating expenses			
Fuel, purchased power and delivery fees – unregulated (a)	4,036	3,847	3,640
Operating costs – regulated	758	730	709
Operating costs – unregulated	667	699	680
Depreciation and amortization – regulated	446	389	297
Depreciation and amortization – unregulated	330	371	427
Selling, general and administrative expenses – regulated	198	219	207
Selling, general and administrative expenses – unregulated	583	872	700
Franchise and revenue-based taxes – regulated	247	248	250
Franchise and revenue-based taxes – unregulated	117	119	140
Other income	(151)	(148)	(58)
Other deductions	45	1,172	42
Interest income	(48)	(28)	(36)
Interest expense and other charges	802	695	784
Total costs and expenses	<u>8,030</u>	<u>9,185</u>	<u>7,782</u>
Income from continuing operations before income taxes, extraordinary gain (loss) and cumulative effect of changes in accounting principles	<u>\$ 2,407</u>	<u>\$ 123</u>	<u>\$ 818</u>

- (a) Includes unregulated cost of fuel consumed of \$968 million in 2005, \$971 million in 2004 and \$1,465 million in 2003, respectively. The balance represents energy purchased for resale and delivery fees.

The operations of the TXU Energy Holdings segment are included above as unregulated, as the Texas market is open to competition. However, retail pricing to residential customers in the historical service territory continues to be subject to certain price controls as discussed in Note 16.

Severance Liability Related to Restructuring Activities—

	TXU Energy Holdings	Electric Delivery	Corp. & Other	Total
Liability for severance costs as of January 1, 2005	\$ 42	\$ 12	\$ 1	\$ 55
Additions to liability	4	—	1	5
Payments charged against liability	(22)	(8)	(2)	(32)
Other adjustments to the liability	(6)	—	—	(6)
Liability for severance costs as of December 31, 2005	<u>\$ 18</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 22</u>

The above table excludes severance capitalized as a regulatory asset or included in discontinued operations.

Interest Expense and Related Charges —

	Year Ended December 31,		
	2005	2004	2003
Interest	\$ 798	\$ 637	\$ 694
Distributions on exchangeable preferred membership interests of			
TXU Energy Holdings (a).....	—	22	34
Interest on long-term debt held by subsidiary trust	—	19	31
Preferred stock dividends of subsidiaries	3	2	6
Amortization of debt discounts, premiums and issuance cost.....	18	27	31
Capitalized interest including debt portion of allowance for borrowed funds			
used during construction	(17)	(12)	(12)
Total interest expense and related charges	<u>\$ 802</u>	<u>\$ 695</u>	<u>\$ 784</u>

- (a) Included in interest for the period ended December 31, 2003 is \$34 million related to the exchangeable subordinated notes that were exchanged for preferred membership interests in July 2003. In April 2004, TXU Corp. purchased from the holders TXU Energy Holdings' preferred membership interests, and subsequent to this purchase, TXU Energy Holdings paid distributions on the preferred membership interests to TXU Corp.

Regulatory Assets and Liabilities —

	December 31,	
	2005	2004
Regulatory Assets		
Generation-related regulatory assets securitized by transition bonds	\$ 1,461	\$ 1,607
Securities reacquisition costs	119	125
Recoverable deferred income taxes — net	107	109
Storm-related costs	110	91
Employee retirement costs	89	—
Nuclear decommissioning cost under-recovery.....	8	30
Other regulatory assets	<u>33</u>	<u>32</u>
Total regulatory assets	<u>1,927</u>	<u>1,994</u>
Regulatory Liabilities		
Investment tax credit and protected excess deferred taxes.....	71	79
Over-collection of securitization (transition) bond revenues	28	23
Other regulatory liabilities	<u>2</u>	<u>1</u>
Total regulatory liabilities	<u>101</u>	<u>103</u>
Net regulatory assets.....	<u>\$ 1,826</u>	<u>\$ 1,891</u>

Included in net regulatory assets are assets of \$121 million at both December 31, 2005 and 2004 that have been reviewed and approved by the Commission and are earning a return. These assets have a remaining recovery period of 12 to 46 years. The regulatory assets subject to securitization have a remaining recovery period of 11 years.

Restricted Cash —

	Balance Sheet Classification			
	At December 31, 2005		At December 31, 2004	
	Current Assets	Investment	Current Assets	Investment
Customer collections related to securitization bonds used only to service debt and pay expenses.....	\$ 46	\$ —	\$ 43	\$ —
Payment of fees associated with securitization (transition) bonds.....	—	10	—	10
Reserve for shortfalls of transition bond charges.....	—	3	—	3
Collateral for surety bonds.....	—	3	—	4
Collateral for letters of credit.....	—	—	—	15
Settlement of forward hedge positions related to a contract termination.....	3	—	—	—
Demolition and relocation work to be performed by TXU Corp. related to the sale of land.....	5	—	6	15
Total.....	<u>\$ 54</u>	<u>\$ 16</u>	<u>\$ 49</u>	<u>\$ 47</u>

Accounts Receivable — At December 31, 2005 and December 31, 2004 accounts receivable of \$1.3 billion included \$494 million and \$422 million of unbilled revenues, respectively.

Allowance for Uncollectible Accounts —

	2005	2004	2003
Allowance for uncollectible accounts as of January 1.....	\$ 16	\$ 54	\$ 48
Increase for bad debt expense.....	56	90	119
Decrease for account write-offs.....	(53)	(121)	(126)
Changes related to receivables sold.....	17	(7)	13
Allowance for uncollectible accounts as of December 31.....	<u>\$ 36</u>	<u>\$ 16</u>	<u>\$ 54</u>

Allowances related to receivables sold are reported in current liabilities and totaled \$30 million and \$47 million at December 31, 2005 and 2004, respectively.

Commodity Contracts — Current and noncurrent commodity contract assets totaling \$1.9 billion at December 31, 2005 and \$861 million at December 31, 2004 are stated net of applicable credit (collection) and performance reserves totaling \$12 million and \$15 million, respectively. Performance reserves are provided for direct, incremental costs to settle the contracts.

Inventories by Major Category —

	December 31,	
	2005	2004
Materials and supplies.....	\$ 163	\$ 148
Environmental energy credits and emission allowances.....	21	21
Fuel stock.....	81	79
Gas stored underground.....	99	72
Total inventories.....	<u>\$ 364</u>	<u>\$ 320</u>

Property, Plant and Equipment —

	December 31,	
	2005	2004
TXU Energy Holdings:		
Generation	\$15,887	\$15,687
Nuclear fuel (net of accumulated amortization of \$1,058 and \$998).....	115	118
Other assets	389	395
TXU Electric Delivery:		
Transmission	2,829	2,544
Distribution	7,384	6,945
Other assets	401	371
Corporate and Other	<u>465</u>	<u>406</u>
Total	27,470	26,466
Less accumulated depreciation	<u>10,804</u>	<u>10,228</u>
Net of accumulated depreciation	16,666	16,238
Construction work in progress	<u>526</u>	<u>438</u>
Property, plant and equipment — net	<u>\$17,192</u>	<u>\$16,676</u>

Consolidated depreciation expense as a percent of average depreciable property approximated 2.3% for 2005 and 2004 and 2.5% for 2003.

Assets related to capitalized leases included above totaled \$100 million at December 31, 2005 and \$8 million at December 31, 2004, net of accumulated depreciation.

The following table summarizes the changes to the asset retirement liability during 2005:

Asset retirement liability at December 31, 2004	\$ 631
Additions:	
Accretion	33
Asbestos removal and disposal costs (a).....	17
Incremental mining reclamation costs	40
Reductions:	
Reclamation payments	(27)
Net change in nuclear decommissioning liability (b)	<u>(136)</u>
Asset retirement liability at December 31, 2005	<u>\$ 558</u>

(a) Implementation of FIN 47. See Note 3.

(b) Impact of revised decommissioning study, which included reduced cost escalation factors.

Accounting under SFAS 143 has no earnings impact with respect to the recognition of the asset retirement costs for nuclear decommissioning, as all costs are recoverable through the regulatory process as part of TXU Electric Delivery's rate setting.

Intangible Assets

	As of December 31, 2005			As of December 31, 2004		
	Gross			Gross		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization included in property, plant and equipment:						
Capitalized software placed in service	\$ 386	\$ 314	\$ 72	\$ 364	\$ 294	\$ 70
Land easements	178	63	115	173	61	112
Mineral rights and other	<u>31</u>	<u>24</u>	<u>7</u>	<u>31</u>	<u>23</u>	<u>8</u>
Total	<u>\$ 595</u>	<u>\$ 401</u>	<u>\$ 194</u>	<u>\$ 568</u>	<u>\$ 378</u>	<u>\$ 190</u>

Aggregate amortization expense for intangible assets for the years ended December 31, 2005, 2004 and 2003 totaled \$23 million, \$46 million and \$69 million, respectively. At December 31, 2005, the weighted average useful lives of capitalized software, land easements, and mineral rights and other assets were 5 years, 69 years and 40 years, respectively. Estimated amounts of amortization expense for the next five years are as follows:

Year	
2006	\$ 24
2007	21
2008	18
2009	10
2010	2

Goodwill (net of accumulated amortization) for the year ended December 31, 2005 was \$542 million with \$517 million at TXU Energy Holdings and \$25 million at TXU Electric Delivery.

TXU Corp. evaluates goodwill for impairment at least annually (as of October 1) in accordance with SFAS 142. The impairment tests performed are based on discounted cash flow analyses. No goodwill impairment has been recognized for consolidated reporting units reflected in results from continuing operations.

Supplemental Cash Flow Information —

	Year Ended December 31,		
	2005	2004	2003
Cash payments (receipts) related to continuing operations:			
Interest (net of amounts capitalized)	\$ 774	\$ 695	\$ 720
Income taxes	\$ 62	\$ 7	\$ (597)
Cash payments (receipts) related to discontinued operations:			
Interest (net of amounts capitalized)	\$ —	\$ 106	\$ 164
Income taxes	\$ 30	\$ 69	\$ —
Noncash investing and financing activities:			
Generation plant rail spur capital lease	\$ 95	\$ —	\$ —
Consolidation of lease trust:			
Increase in assets	\$ 35	\$ —	\$ —
Increase in debt	\$ 96	\$ —	\$ —

See Note 3 for the effects of adopting FIN 47 and SFAS 143, which were noncash in nature.

Quarterly Information (unaudited) — Results of operations by quarter are summarized below.

In the opinion of TXU Corp., all other adjustments (consisting of normal recurring accruals) necessary for a fair statement of such amounts have been made. Quarterly results are not necessarily indicative of a full year's operations because of seasonal and other factors.

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
2005:				
Operating revenues.....	\$ 2,040	\$ 2,486	\$ 3,191	\$ 2,720
Income from continuing operations before extraordinary loss and cumulative effect of change in accounting principle.....	405	383	571	414
Preference stock dividends.....	<u>5</u>	<u>4</u>	<u>—</u>	<u>—</u>
Net income available to common stock from continuing operations.....	400	379	571	414
Income (loss) from discontinued operations, net of tax effect.....	16	(4)	(6)	—
Extraordinary loss, net of tax effect.....	—	—	—	(50)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8)</u>
Net income available for common stock.....	<u>\$ 416</u>	<u>\$ 375</u>	<u>\$ 565</u>	<u>\$ 356</u>
Basic per share of common stock:				
Income from continuing operations before extraordinary loss and cumulative effect of change in accounting principle.....	\$ 0.86	\$ 0.81	\$ 1.19	\$ 0.87
Preference stock dividends.....	<u>(0.01)</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>
Net income available to common stock from continuing operations.....	0.85	0.80	1.19	0.87
Income (loss) from discontinued operations, net of tax effect.....	0.03	(0.01)	(0.01)	—
Extraordinary loss, net of tax effect.....	—	—	—	(0.10)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.02)</u>
Net income available for common stock.....	<u>\$ 0.88</u>	<u>\$ 0.79</u>	<u>\$ 1.18</u>	<u>\$ 0.75</u>
Diluted per share of common stock:				
Income (loss) from continuing operations before extraordinary loss and cumulative effect of change in accounting principle.....	\$ (0.12)	\$ 0.72	\$ 1.17	\$ 0.86
Preference stock dividends.....	<u>(0.01)</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>
Net income (loss) available to common stock from continuing operations.....	(0.13)	0.71	1.17	0.86
Income (loss) from discontinued operations, net of tax effect.....	0.03	(0.01)	(0.01)	—
Extraordinary loss, net of tax effect.....	—	—	—	(0.10)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.02)</u>
Net income (loss) available for common stock.....	<u>\$ (0.10)</u>	<u>\$ 0.70</u>	<u>\$ 1.16</u>	<u>\$ 0.74</u>

In the fourth quarter of 2005, TXU Corp. recorded an extraordinary loss of \$50 million (net of tax benefit of \$28 million) related to the consolidation of a lease trust in December 2005. TXU Corp. also recorded a \$12 million (net of tax of \$8 million) cumulative effect of a change in accounting principle related to the adoption of FIN 47. The 2005 diluted per share results reflected the unfavorable impact associated with the accelerated share repurchase program, which was settled in May 2005. See Notes 1, 3 and 5.

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
2004:				
Operating revenues.....	\$ 2,132	\$ 2,303	\$ 2,743	\$ 2,130
Income (loss) from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	128	(90)	383	(341)
Exchangeable preferred membership interest buyback premium	—	849	—	—
Preference stock dividends.....	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>
Net income (loss) available to common stock from continuing operations.....	123	(944)	378	(347)
Income (loss) from discontinued operations, net of tax effect	50	330	287	(288)
Extraordinary gain, net of tax effect	—	16	—	—
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>10</u>
Net income (loss) available for common stock	<u>\$ 173</u>	<u>\$ (598)</u>	<u>\$ 665</u>	<u>\$ (625)</u>
Basic per share of common stock:				
Income (loss) from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	\$ 0.20	\$ (0.13)	\$ 0.65	\$ (0.64)
Exchangeable preferred membership interest buyback premium.....	—	(1.33)	—	—
Preference stock dividends	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>
Net income (loss) available to common stock from continuing operations.....	0.19	(1.47)	0.64	(0.65)
Income (loss) from discontinued operations, net of tax effect	0.08	0.51	0.49	(0.53)
Extraordinary gain, net of tax effect	—	0.03	—	—
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.02</u>
Net income (loss) available for common stock	<u>\$ 0.27</u>	<u>\$ (0.93)</u>	<u>\$ 1.13</u>	<u>\$ (1.16)</u>
Diluted per share of common stock:				
Income (loss) from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	\$ 0.19	\$ (0.13)	\$ 0.19	\$ (0.64)
Exchangeable preferred membership interest buyback premium.....	—	(1.33)	—	—
Preference stock dividends	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>
Net income (loss) available to common stock from continuing operations.....	0.18	(1.47)	0.18	(0.65)
Income (loss) from discontinued operations, net of tax effect	0.07	0.51	0.49	(0.53)
Extraordinary gain, net of tax effect	—	0.03	—	—
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.02</u>
Net income (loss) available for common stock	<u>\$ 0.25</u>	<u>\$ (0.93)</u>	<u>\$ 0.67</u>	<u>\$ (1.16)</u>

Included in fourth quarter 2004 income from continuing operations were losses on retirement of debt of \$352 million (\$334 million after-tax), lease termination costs of \$180 million (\$117 million after-tax) and charges related to the termination of a power purchase contract of \$43 million (\$28 million after-tax). Included in fourth quarter 2004 income from discontinued operations was a settlement charge of \$220 million (\$143 million after-tax) related to potential TXU Europe claims. (See Note 4.)