PECO NUCLEAR
A Unit of PECO Energy

10CFR 50.71(b)

PECO Energy Company
965 Chesterbrook Boulevard
Wayne, PA 19087-5691

June 28, 2000

Docket Nos. 50-277
50-278
50-352
50-353

License Nos. DPR-44
DPR-56
NPF-39
NPF-85

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555-0001

Subject: Peach Bottom Atomic Power Station, Units 2 & 3
Limerick Generating Station, Units 1 & 2
PECO Energy Company Annual Financial Statements

Dear Sir/Madam:

Attached is the 1999 Annual Financial Report for PECO Energy Company, operator of Peach Bottom Atomic Station, Units 2 & 3, and Limerick Generating Station, Units 1 & 2. This Annual Report contains the annual financial statements for 1999. This information is being submitted in accordance with the requirements of 10 CFR 50.71(b) and 10 CFR 50.4.

If you have any questions or require additional information, please do not hesitate to contact us.

Very truly yours,

G. B. Heller /for

J. A. Hutton
Director - Licensing

Attachment

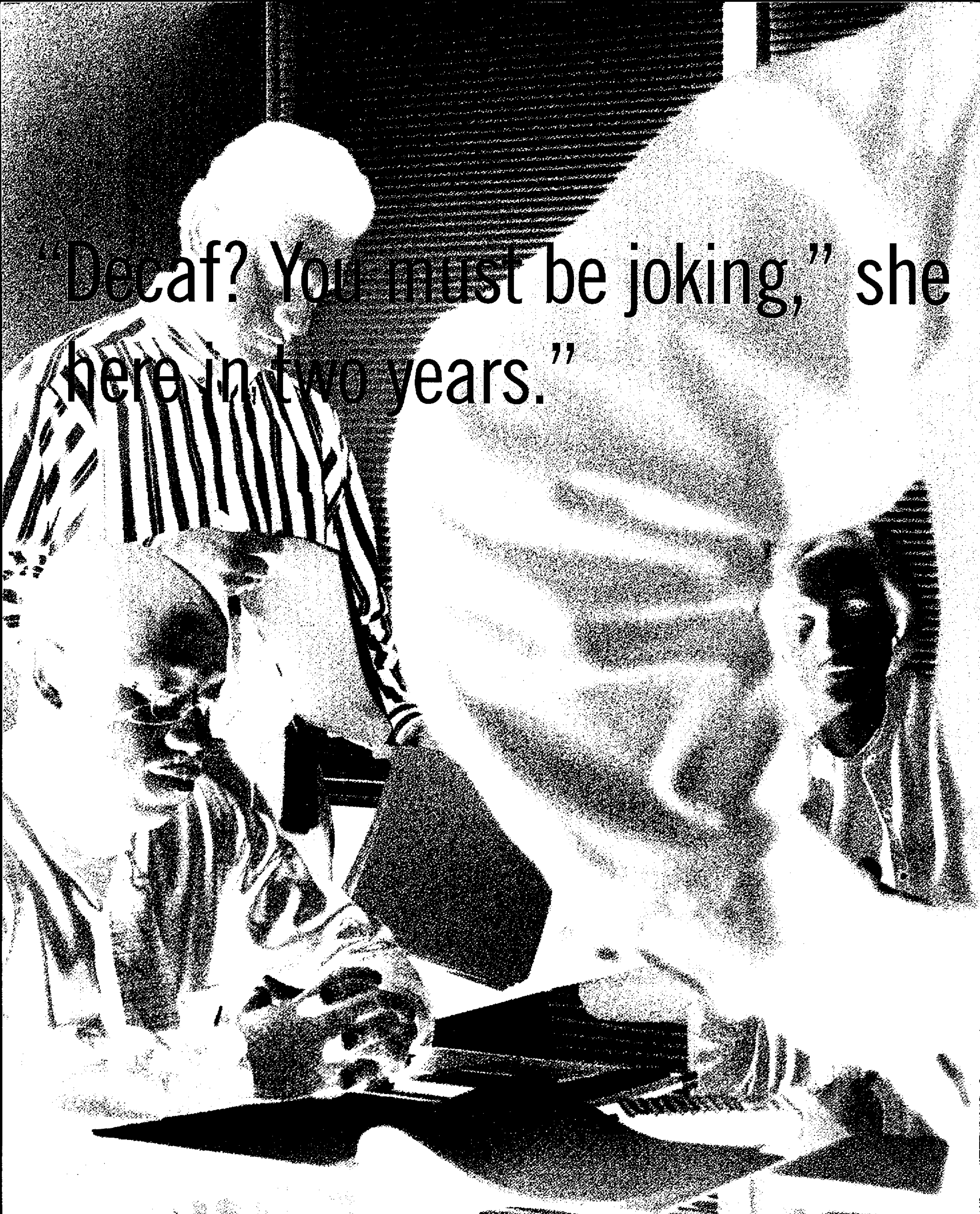
cc: H. J. Miller, Administration, Region I, USNRC
A. L. Burritt, USNRC Senior Resident Inspector, LGS
A. C. McMurtray, USNRC Senior Resident Inspector, PBAPS

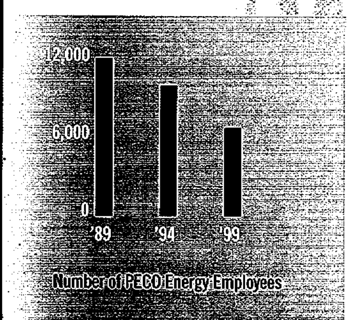
M004

"We are relentless," he said.

Scenes from life at PECO Energy.

“Decaf? You must be joking,” she here in two years.”





Productivity continues to climb. All across the Company, we're doing more and more with fewer and fewer people.

Y2K readiness was completed for 97% of our systems by June, and the remaining 3% by November 1st. Performance on January 1, 2000 was perfect.

said. "We haven't served that

I should have known better. The moment the elevator doors opened on the 26th floor of PECO Energy's corporate headquarters, I realized that this was not the sleepy company the phrase "Philadelphia utility" suggests. My guide and I dodged people moving at mission-critical speed through the hallways as we made our way to the kitchen.

"Oh yeah," she said while I filled a mug with the strong stuff, "Things have really changed here. When deregulation kicked in, we didn't hear anyone say 'go plan.' We heard 'go *do*.'"

That's certainly the story of 1999 all around PECO Energy: Action. Just in our coffee klatch, my guide counted off an impressive list of accomplishments.

Putting together five deals to purchase nuclear generating plants, moving the Company closer to its vision of becoming the world's leading provider of clean energy.

Setting a world record for refueling and replacing 2,500 tons of turbine equipment at the Limerick Generating Station.

Creating a nationwide infrastructure services company with $600 million in revenue, through six major acquisitions in just 10 months.

Growing two telecom businesses at rates well ahead of plan — with descriptions like "doubling" and "quadrupling."

Facing a competitive retail electric power market for the first time, and outperforming the entrepreneurs.

Responding to the demands of 19 major storms, including Hurricane Floyd, the second-worst storm in PECO Energy history.

Delivering record wholesale volumes during the nationwide heat wave, while maintaining a 100% deliverability record and enjoying the best financial performance ever in the wholesale power marketing business.

And, through it all, continuing to contribute heavily to the economic, cultural and social life of the Philadelphia region.

She hadn't yet even mentioned the announcement of a merger with Unicom that will put the new company in the top tier of national energy companies.

I was no longer thirsty by this time. I was breathless.

My guide noted, with typical PECO understatement, "We proved to ourselves — and, I hope, to the industry — that we can execute."

The industry *has* noticed. And the accolades are showering down on this wide-awake company, including designation as "Utility of the Year" by *Electric Light & Power*, one of the industry's oldest and most respected publications.

And the people of PECO Energy have achieved all of this while remaining focused on the things that really count — not only their strategies and goals, but their values. Here's a perfect demonstration: PECO Energy's 1999 safety record was among the best in the Company's history.

PECO Energy made outstanding responses to 19 major storms in 1999, including winter storm Ernie in March and Hurricane Floyd in September.

"Proposal," a TV commercial from PECO Energy's "You can never be too prepared" campaign, was chosen by [illegible] advertising trade journal, as one of the [illegible] for November 1999.

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Financial Highlights

In Thousands, except per share data	1999	1998	% Change
Operating Revenues	$5,436,753	$5,262,532	3.3%
Operating Expenses	$4,027,582	$3,977,023	1.3%
Operating Income	$1,409,171	$1,285,509	9.6%
Extraordinary Items (Net of taxes)	$ (36,572)	$ (19,654)	-86.1%
Earnings Applicable to Common Stock (After Extraordinary Items)	$ 570,238	$ 499,615	14.1%
Earnings Applicable to Common Stock (Before Extraordinary Items)	$ 606,810	$ 519,269	16.9%
Earnings Per Average Common Share (After Extraordinary Items)	$ 2.91	$ 2.24	29.9%
Cash Dividends Paid Per Common Share	$ 1.00	$ 1.00	—
Average Shares of Common Stock Outstanding	196,285	223,219	-12.1%
Capital Expenditures	$ 491,097	$ 415,331	18.2%
Shareholders' Equity	$1,910,480	$3,194,814	-40.2%
Book Value Per Common Share	$ 9.78	$ 13.61	-28.1%

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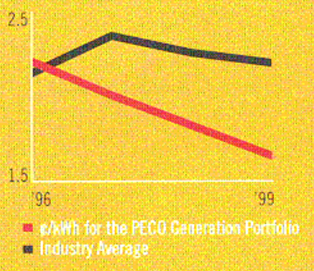
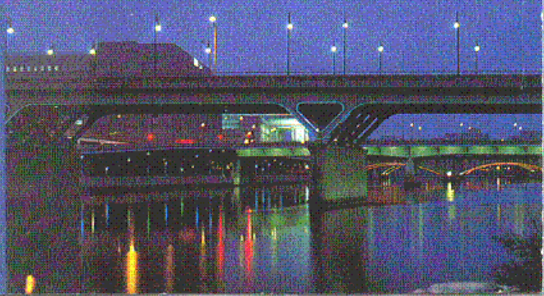
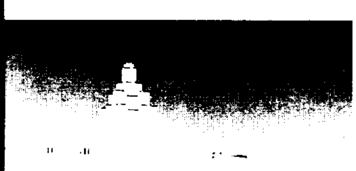


◄ PECO Energy's operational excellence shows up powerfully when our generation cost per kilowatt hour is compared to the industry's average.

► As part of Philadelphia's New Year's Eve 1999 celebration, PECO Energy brought light to seven bridges over the Schuylkill River — each with a different design, and each a permanent enhancement to the city.





Exelon Infrastructure Services was awarded a $10 million contract to restore the gas system in the city of Atlanta.

In 2000, PECO Energy will face deregulation of natural gas supply for its 400,000 customers, putting Pennsylvania on the leading edge of customer choice in both electric and gas.

Dear fellow shareholders:

What a year it's been for PECO Energy Company. We have brought about more change and achieved more growth in 1999 than ever before in the history of the Company.

Our 1999 financial results represent an industry-leading 17% growth in earnings per share — more than double the average of our industry peers. I think perhaps the most remarkable aspect of our record earnings is that we managed this accomplishment in the same year that we provided our customers with a $280 million rate reduction and opened our business to competition. These financial results are a testament to our commitment to our strategy, and our unrelenting drive for finding new ways to create value for you, our shareholders.

As you read through this report, you will see the giant strides we have taken. You'll come to understand that 1999 was a watershed that redefined us as a company. Changes taking place in the industry and at PECO Energy have certainly awakened our competitive spirit and are driving us to do more at a faster pace.

The rewards of superior performance.

I am very proud of what we achieved in 1999, including:

- Exceeding our generation acquisition goals by reaching agreements to purchase four more nuclear power plants.
- Setting nuclear industry world records for refueling and turbine replacement outages.
- Surviving and thriving in the newly competitive retail marketplace.
- Weathering the second-worst storm in our Company's history, and providing extraordinary storm response and restoration.
- Issuing $4 billion in AAA-rated, asset-backed transition bonds, enabling us to repurchase $1.7 billion in common stock and to retire $2.3 billion in higher-cost debt.
- Creating a $600 million infrastructure services business.
- Building on our stellar reputation in the wholesale power markets for 100% delivery, 100% of the time.
- And most significantly, achieving a merger agreement with Chicago-based Unicom Corporation, which expands and accelerates our growth strategy.

I am indebted to our employees, whose dedication made it all happen. I am grateful to the Board of Directors, who had the vision and courage to lead the Company in our pursuit and implementation of an aggressive and sometimes contrarian strategy. And I am immensely pleased that the industry has acknowledged and rewarded our ability to execute. In fact, *Electric Light & Power*, a major industry trade journal, named us the 1999 Utility of the Year.

During 1999, the stock market did not reward us in the same spirit. The utility index declined more than 20% in 1999, as investors rushed to the technology sector. We suffered along with the other utilities, and we were further impacted by the market's early response to our merger announcement. Fortunately, as Wall Street had time to analyze the merger and its potential, our stock recovered. As of the date of this letter, our price is up about 13% since the beginning of the year.

For the third time in three years PECO Energy employees recognized the value of their relationship with the Company and voted overwhelmingly to remain union free.

PECO Energy's two nuclear units at Peach Bottom turned in a tremendous performance the best business year ever based on its capacity factor production costs and safety

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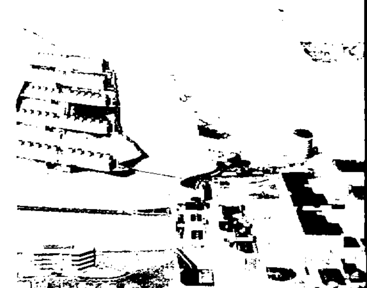


Adding more than 3,000 megawatts.

> "The acquisition of nuclear power stations is not for the faint-hearted," he told me. "But boldness has its rewards."

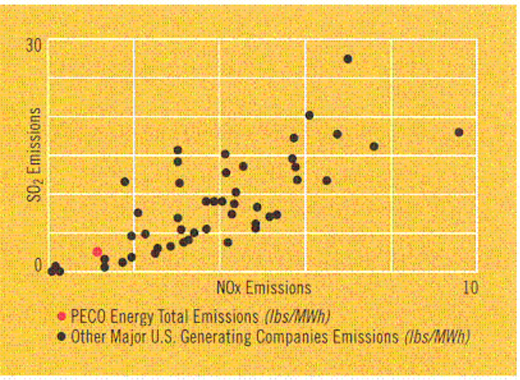
Duncan Hawthorne is such a perpetual motion machine that I could only corner him by phone, hours before another flight. He's the Vice President, Nuclear Acquisitions for AmerGen, a joint venture between British Energy and PECO Energy for the purchase and operation of nuclear plants.

"It's been a wild ride," he told me. "We negotiated three consecutive deals in a six-week period. And we put together five for the year — when we'd only expected to do two!"

The first deal of the year was a perfect illustration of AmerGen's strengths. The Clinton Nuclear Power Station in Illinois had been shut down by the Nuclear Regulatory Commission (NRC) for two years, costing its owners $16 million per month in maintenance, plus replacement power costs. In April, AmerGen agreed to purchase it for about 4% of its cost to build, but they assumed all the risk of restarting it.

If they had not restarted Clinton, the impact would have been felt all over: mounting maintenance costs for PECO Energy and British Energy, a hole in the Midwest power pool, and a huge blow to the integrity of the nuclear industry. "But this business is about believing that we have the skills and resources to do things no one else can do — and proving it," Duncan noted.

Prove it, they did. PECO Energy and British Energy secured the fastest regulatory approval for restart in NRC history. And had Clinton operating at full power by June 1 — in time to take profitable advantage of the hot summer. It's been running at 100% ever since.



PECO Energy's total emission rates of nitrogen oxides (NOx) and sulfur dioxide (SO_2) are among the lowest in the nation, demonstrating how the Company's nuclear strategy brings the Company closer to its vision of being the world's leading supplier of clean energy.

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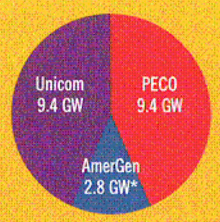
◀ AmerGen won the award for the "Boldest Successful Investment Decision" at the first-ever *Financial Times* Energy Awards.

▶ PECO Energy's goal was to grow the generation portfolio to 25 GW by 2003. By year end 1999, the Company had reached 12.2 GW through AmerGen acquisitions. With the Unicom merger our combined portfolio will be 21.6 GW.



Combined Generating Portfolio = 21.6 GW
*Includes pending acquisitions

Although the utility sector has significantly under-performed the broader market for the last year, my view is that utilities that differentiate themselves from the "pack" will find favor in the eyes of investors again. My intention is to make PECO Energy Company the most attractive investment for the widest variety of market segments, by executing our strategy, achieving industry-leading growth rates and consistently delivering results that exceed expectations.

A powerful future.

The new company that we are creating through our merger with Unicom will clearly set us apart from the "pack," and promises to establish Exelon Corporation as an industry leader. We expect the merger transaction to be completed in the fall of 2000. When Exelon emerges we will have approximately 5 million customers, almost 22,000 MW of generation and projected annual revenue of more than $12 billion. Exelon will clearly be one of the largest energy companies in the United States.

As a shareholder, you'll benefit tremendously from the creation of Exelon Corporation through:

- A planned 69% increase in the annual dividend paid to PECO Energy shareholders.
- $2.0 billion in capital returned to shareholders of the two companies.
- A business plan that projects at least 10% average annual growth in earnings per share.
- And, a combined management team that has *proven* its commitment to shareholder value.

Our decision to merge with Unicom reflects our firm belief that, in the increasingly competitive energy marketplace, a stand-alone, regional utility company would be at a significant disadvantage. Success in the future will require the scale, scope and financial resources that this merger will provide us. For PECO Energy, finding a partner was inevitable, and I am delighted to have found a partner that shares our commitment to shareholders, our drive for results and our appetite for change.

There's no stopping now.

As you read on about some of the most exciting highlights of 1999, I think you'll come to understand what I mean when I say that we are relentless. Relentless about safety. Relentless about performance. Relentless about customers. Relentless about shareholder value.

The past year ranks as the highlight of my career to date. But the year 2000 and beyond is where my focus is now — on inspiring Exelon Corporation to *redefine* "relentless."

Corbin A. McNeill, Jr.
PECO Energy Company, Chairman
President and Chief Executive Officer
February 29, 2000

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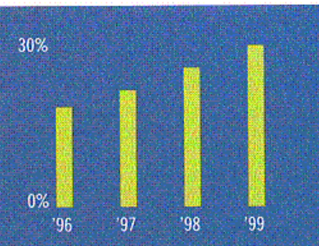
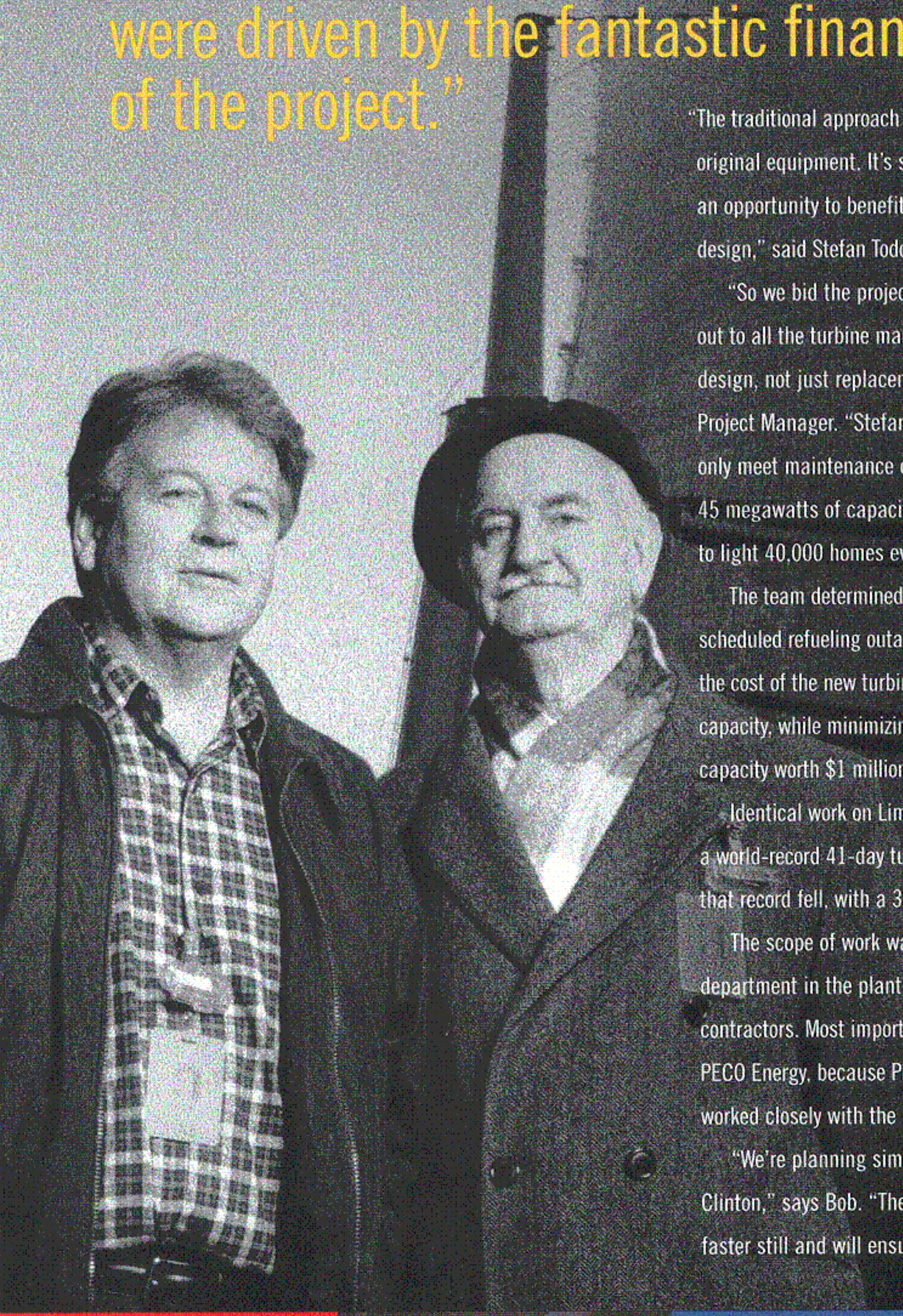
► The new PECO Primate Reserve at the Philadelphia Zoo has brought delight to more than 682,000 visitors since it opened in the summer of 1999.



% Work Outsourced by Utility Industry

◄ Throughout the industry, an increasing percentage of utility work is being outsourced to independent contractors. Exelon Infrastructure Services is positioned to capture a large portion of this growing market.



"It wasn't just maintenance," he confided, "We were driven by the fantastic financial potential of the project."

"The traditional approach to turbine maintenance is to replace the original equipment. It's simple and cheap. But we saw, instead, an opportunity to benefit from decades of progress in turbine design," said Stefan Todorovski, PECO Energy's turbine specialist.

"So we bid the project at our Limerick Nuclear Power Station out to all the turbine manufacturers, asking for the best possible design, not just replacement parts," explained Bob Atkinson, Project Manager. "Stefan knew the right new design could not only meet maintenance demands, but actually add a total of 45 megawatts of capacity to each of the two units — enough to light 40,000 homes every day."

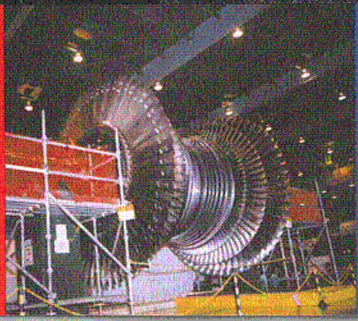
The team determined that the work could be done during a scheduled refueling outage. They planned the project to balance the cost of the new turbine against the value of the additional capacity, while minimizing the outage — with a megawatt of capacity worth $1 million and each outage day costing $500,000.

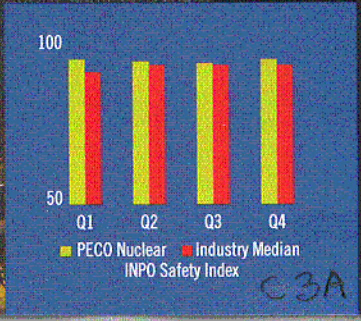
Identical work on Limerick Unit One was done in 1998 in a world-record 41-day turbine replacement outage. This year, that record fell, with a 36-day outage on Unit Two.

The scope of work was tremendous — touching every department in the plant — involving nearly 500 employees and contractors. Most important, the learning and experience stays at PECO Energy, because PECO's own Nuclear Maintenance Division worked closely with the manufacturer every step of the way.

"We're planning similar projects at Three Mile Island and Clinton," says Bob. "The experience at Limerick will make us faster still and will ensure even more financial benefits."

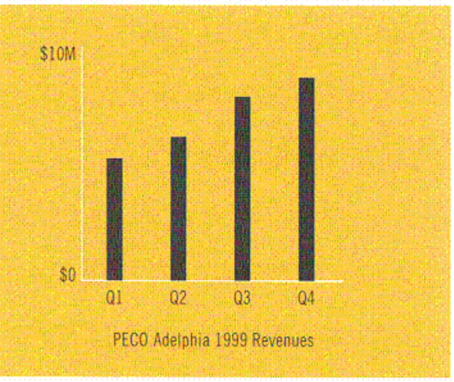
► In the work on Limerick's Unit Two, PECO Energy replaced approximately 2.5 million pounds of turbine components. It took more than 1,000 crane picks to complete the job.





◄ The safety record at PECO Energy's nuclear plants beat the world-class goal established by the Institute of Nuclear Power Operations (INPO).

"We're playing to our strengths in telecom," he said, "I mean, it all boils down to poles and wires."



PECO Adelphia 1999 Revenues

PECO Adelphia, the Company's fiber-optic joint venture, exceeded its business plan in 1999. It more than quadrupled its 1998 revenues, and was EBITDA positive by the third quarter — six months ahead of plan.

The first question I asked Exelon Communications' two key business leaders was, "How did an energy company get into the phone business?"

Jim Morozzi, Director of PECO Energy's wireless phone business answered first. "Actually, we got into the telecommunications business by being recognized experts in installing utility infrastructure." Exelon Communications has established two joint ventures: the first with AT&T Wireless for digital PCS service in the Philadelphia area; and the second with Adelphia Business Solutions for fiber-optic local exchange carrier service. In each of these joint ventures, PECO Energy's role is to provide the infrastructure for the technology — laying the fiber in the ground and building the cell towers. The partners provide the marketing and customer service for the businesses.

"Our infrastructure capability, combined with the branding and marketing power of our partners, was just too powerful and promising to pass up," added Nick Stathes, Exelon Communications business leader for the PECO Adelphia telecom business. "A lot of other energy companies have failed in their telecommunications ventures because they thought they could do it alone. We're smart enough to recognize that finding a complementary partner is the key to long-term success in the telecommunications arena," Stathes added.

"We're already the largest network of its kind in Pennsylvania; we're expanding into New Jersey, and exploring new joint ventures for nationwide connectivity," said Stathes.

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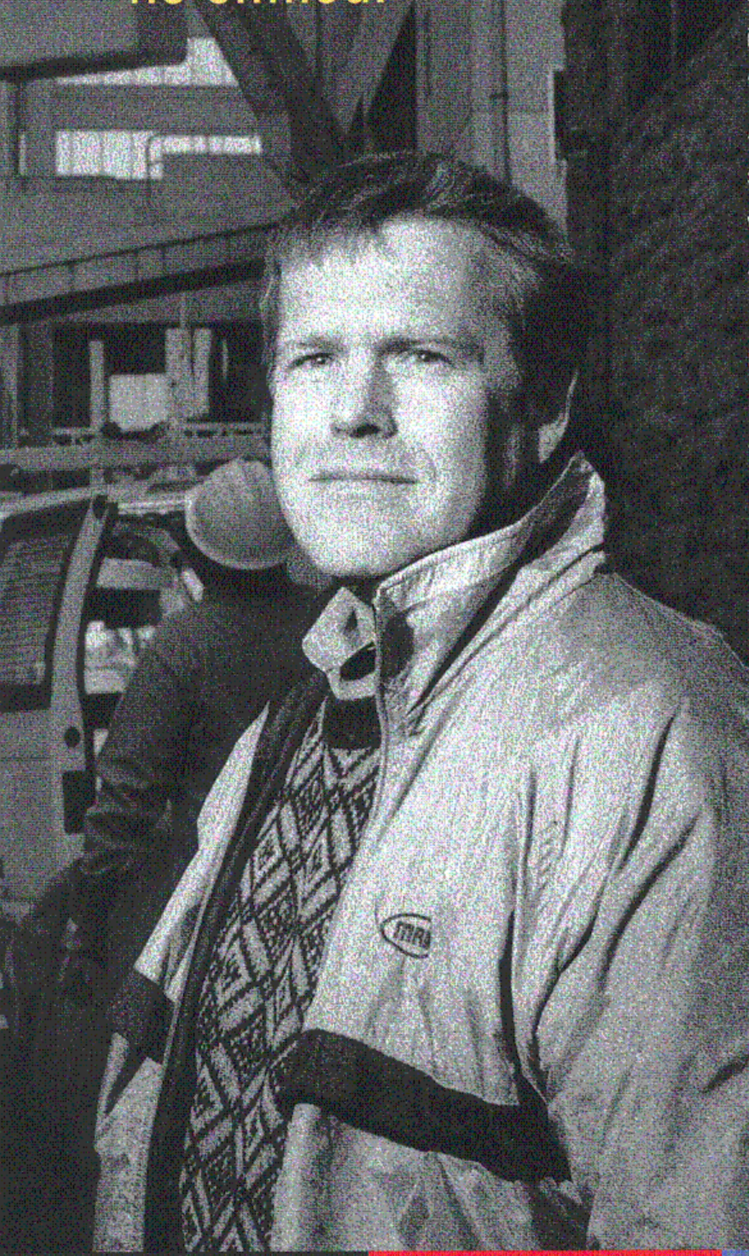
◄ Exelon's infrastructure expertise is an important asset in the wireless phone business, where Exelon has built cell sites for 10% less than AT&T's average cost.

► PECO Energy's joint venture with AT&T is benefiting from the exploding wireless market. Its customer base has more than doubled in size from 100,000 to 210,000.

Creating a $600 million company in 10 months.



"In this business, you have to be the big dog to win. And that's what we'll be as part of EIS," he smiled.

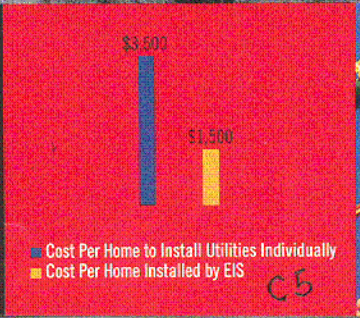
Dennis Mueller of MRM, the largest underground utility infrastructure construction company in the nation, is a believer. "We had everybody trying to get us to sell, and we told everybody *No*," he confided. "But then I took a retreat at Harvard to study where the industry is going. I realized that very soon we wouldn't have the size or capabilities to remain a leader — and I knew I wanted my company to remain on top."

Dennis called Exelon Infrastructure Services (EIS), the PECO Energy subsidiary that is creating a national utility infrastructure business. "EIS is exactly what the industry is starting to ask for — one company to handle overhead and underground infrastructure from design engineering through maintenance."

The six companies that EIS acquired in 1999 provide the ideal range of technical platforms to create a turnkey resource for tomorrow's utilities. And buy-in from acquired companies' management and employees is deep. In fact, most of the original owners have become shareholders in EIS and have stayed on as managers.

EIS moved aggressively to purchase the best players first. "We should reach our goal to grow this business to more than a billion dollars in annual revenue fairly quickly," Dennis said. "We have the management, the desire, and the talent to integrate and deliver. And, with the quality of acquisition candidates we're attracting, I'm confident that the earnings will be there."

The Exelon Infrastructure Services approach is a new paradigm: a home builder used to wait for weeks for the gas, electric, cable, and phone companies to dig their trenches and install their services. Now EIS does it all.



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In aerial wiring, the EIS advantage is dramatic. Replacing a broken pole once required work by individual crews from telecom, cable, and electric utilities. Now EIS can handle the whole job.

Facing competition for the first time.

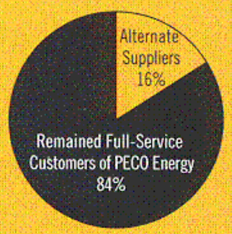
"They predicted that utilities would be too big and slow to compete," he laughed. "I bet they're eating their words."

"Failure was not an option," recalled Brian Crowe, the Director of Customer Choice Implementation, as he reflected on the challenge of preparing for electric competition in Pennsylvania.

"In the new world of electric choice, our role as the distribution company meant that we had to create a highly sophisticated system that would enable new competitors to fully interface with our customer billing and metering systems," he explained. "We had to record the meter readings, transfer those readings to 30 different suppliers, receive their billing information, generate timely and accurate bills for their 250,000 customers, and then make sure that the customers receive them. And we had to make it work seamlessly for our customers."

For sure, all eyes were on the Pennsylvania utilities to see how they were going to handle the challenges of a newly competitive industry. "One thing that I always had in the back of my mind," Crowe said, "was that the Company was aggressively pursuing growth in many areas, and any problem in implementing choice would have had regulators saying, 'They can't even handle Customer Choice.'"

"I am very proud of what we accomplished here," said Brian, "and we *own* this success. We built these systems and created these processes from the ground up with our own people. The biggest compliments are the calls from utility companies all around the country asking for our help as they prepare for competition in their state."



1999 Customer Choice

In the first year of Customer Choice, PECO Energy retained 84% of its customers. Of the 16% who switched, many were high-volume, industrial customers seeking the lowest possible price. Although these customers represented 40% of the total load, they also represented the lowest margin customer segment.

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◀ As part of our cost reduction efforts, PECO Energy signed a contract for the largest fixed-wireless automated meter reading system in the world. In the next three years, the Company will replace 2.1 million electric and gas meters — that's 3,000 meters a day for 43 months.

▶ PECO's safety record for 1999 was among the best in the Company's history in all segments of the business.

Restoring power to 412,000 after Hurricane Floyd.

"Once you get the crews rockin' and rollin', your 16-hour shift goes by in a flash," she told me.

A utility crew dispatcher's desk during a major storm is not the quiet eye: it's the wild part. "Every time you clear 20 jobs, you find 40 more on your screen." That's how Kim Billingsley describes the action at the height of Hurricane Floyd, the second largest storm in PECO Energy's history.

"We knew it was coming, so we had everything in place with crews already on the street," she said. Fifty mph winds and record flooding affected more than one-third of PECO Energy's customers — both electric and gas. But as Kim put it, "We responded as fast and furiously as the storm."

Statistics tell the story quickly: 2,600 employees and contract crews from as far away as Indiana and Kentucky worked around the clock for four days to restore service. They handled more than 5,000 wire repair jobs, 1,500 downed trees and 2,500 gas calls.

Kim tells it another way: "The guys on the street are hard workers and safe workers. They know there are people out there who are depending on them. So they want to get things fixed now! I mean, you have to remind them to do things for themselves, like eat. And you literally have to force them to go home and rest!"

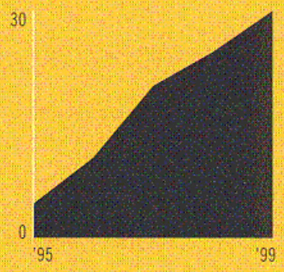
The rewards of that dedication were restoration of power to more than 90% of affected customers in just the first 24 hours. Plus commendations from the Pennsylvania Public Utility Commission, local municipal officials, and one of our local Pennsylvania State Senators.

The PECO Energy team placed 31st out of 226 teams in the finals of the Lineman Rodeo, an international skills and safety competition for linemen.

Productivity is on the rise at PECO Energy, due in part to the empowerment of cross-functional teams. These teams are improving age-old processes and finding new ways to reduce costs.

Moving the community into the future of business.

"If we can nurture the next Bill Gates, that's good for the region, the city, and PECO Energy," he said.



Cumulative Number of Jobs Created or Retained *(in thousands)*

Over the past five years, PECO Energy's Economic and Business Development group has helped create jobs in the region by attracting and retaining employers.

"Connections... that's a word that has always described what we do. We put the right people together to bring companies and new jobs to the region. But today, it's more than human connections — it's wired connections ... as in 'wired buildings.'" That's how Greg Byrnes, PECO Energy's Director of Economic and Business Development, began my education about a highly promising addition to PECO Energy's economic and business development initiative.

The concept is that the city needs office space that has the infrastructure for heavy-duty e-commerce. Such buildings will allow "dot. com" entrepreneurs to start businesses with far less investment than setting up and running their own infrastructure would require. Think of such buildings as incubators for the next Amazon.com or the next Microsoft.

PECO Energy has been a leader in promoting development of such projects, because the potential is so great. The area has everything that's needed. There are larger, older buildings, undergoing rehabilitation. There's a robust business community that sees real benefits from getting "connected." And there's powerful infrastructure capability, including the PECO Adelphia fiber business, as well as Exelon Infrastructure Services.

It's taking hold now. PECO Energy has been instrumental in the creation of Philadelphia's first major wired building— a million square feet — with access to diverse fiber telecom links. The building houses 350,000 square feet of space dedicated to incubation of e-commerce businesses. And, by the way, it will create at least 1,500 jobs and generate approximately $4 million a year in revenue for PECO Energy.

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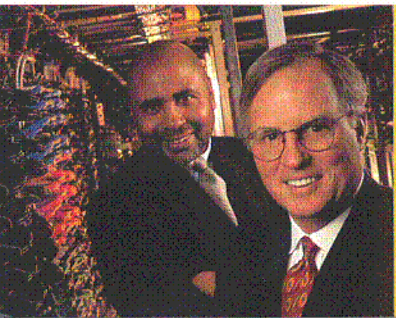
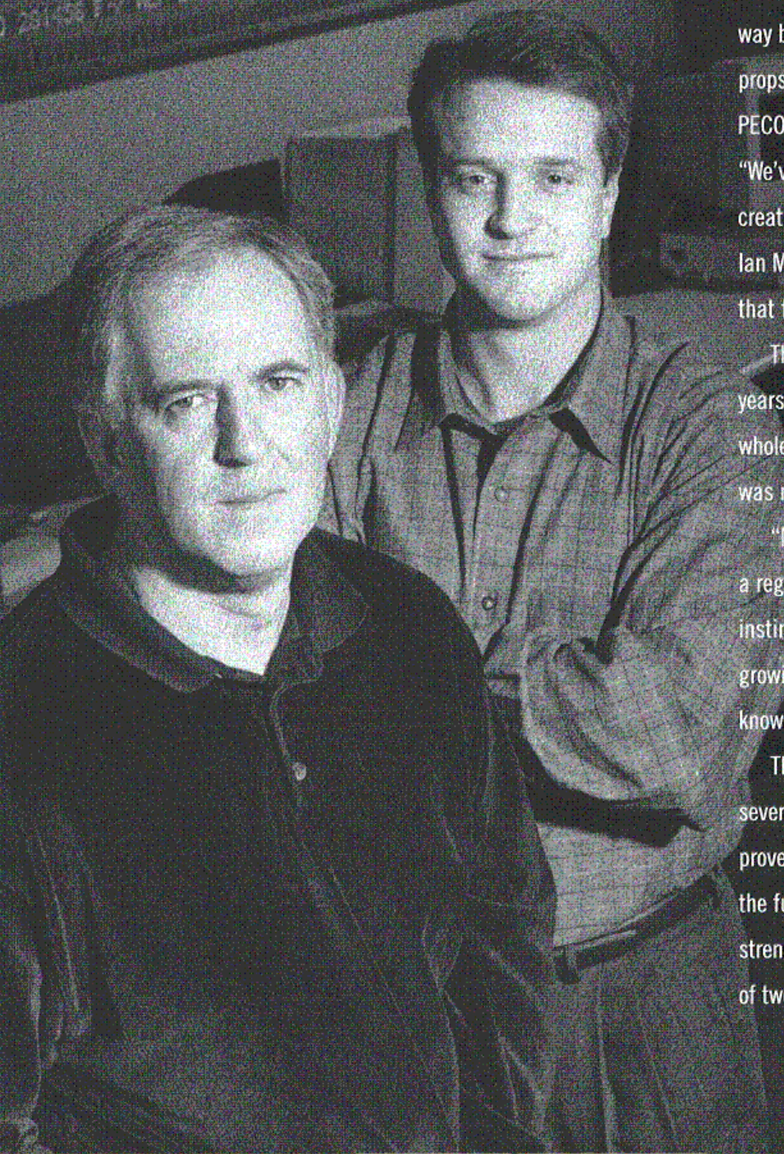


◀ PECO Energy Economic Development's John Daniel and Greg Byrnes show what "wired" means in wired buildings.

▶ PECO Energy finds ways to update older inner-city infrastructure to keep and increase business. For a new gourmet bakery associated with chef George Perrier's Le Bec-Fin restaurant, PECO "beefed-up" power delivery, and improved system reliability for businesses along Walnut Street.

Turning creativity to profit.

"Sure, making power investments all across the country was a risk," he shrugged. "But it paid off handsomely."



When two men appeared carrying camouflage bandannas, I knew my Power Team contacts had found me.

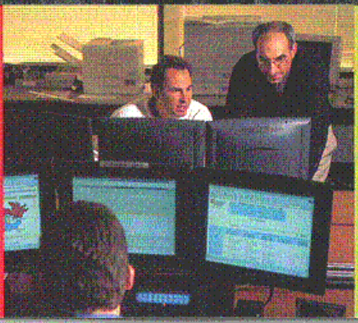
Okay, it was just a coincidence — they were on their way back from a leadership retreat where the headgear were props — but it was quite appropriate for the leaders of PECO Energy's guerrilla band of wholesale power marketers. "We've been able to build this team around brain power and creativity, not hierarchy and credentials," Power Team President Ian McLean told me. "We owe a lot to senior management for that freedom."

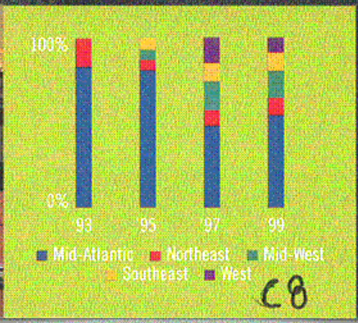
They've paid that debt many times over in the past five years. Each year, Power Team has consistently improved its wholesale margins and bottom line contributions — last year was no exception.

"No one had ever tried to create a national presence from a regional generation portfolio," explained Ken Cornew. "But our instincts told us that was the way to optimize the value of our growing generation and transmission portfolio and our unique knowledge of the power system in the United States."

Those instincts were right. Investments made over the past several years in transmission rights and generation nationwide proved their value during the peak summer months. And, for the future, the Power Team has just taken the next step in strengthening its national presence by contracting for the output of two new merchant plants — in Georgia and Oklahoma.

► Desktop intelligence: Power Team has a philosophy of sharing market intelligence across their entire team. And a system to do it. That makes for real competitive advantage.





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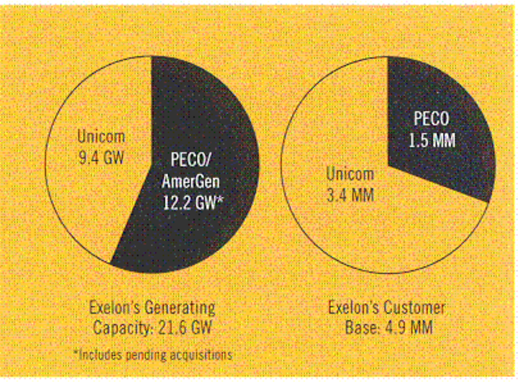
◄ Since its inception in 1993 as a regional player, Power Team has expanded its geographic reach to become a national presence.

"Our capability to lead will only be enhanced by the merger," he said. "It will not distract us."



The merger will create a company — Exelon — that enhances PECO Energy's generation strengths while augmenting Unicom's distribution focus. It's a powerful, balanced company of national stature.

"The kind of thinking that brought us to the merger with Unicom — bold, flexible, opportunistic — will make the new Exelon work," Chief Integration Officer Michael Egan told me.

The merger highlights the companies' complementary strategies — power generation for PECO Energy and distribution for Unicom. Even the unregulated business strengths are unduplicated, bringing greater diversity and strength to the new company. Unicom Chairman and CEO John Rowe has put it succinctly: "These two companies need each other in order to grow. They would be successful alone, but together they will be great."

Financially, the merger will be accretive across the board — in cash flow, earnings, and earnings growth — with significant potential for revenue growth in the wholesale power market and the other unregulated businesses. And, as one of the largest utilities in the United States, Exelon will have the economies of scale that are needed in this fast-evolving industry.

The strategic advantages are there. The financial benefits are there. The real challenge is a human one. As Michael puts it, "The soft stuff is the hard stuff."

Exelon is bringing together two different cultures. But they are two cultures with a single vision. "I'm no cheerleader," Michael told me, "but this is a tremendous opportunity to have an impact on the history of our industry. With an aggressive schedule and solid, short-term business goals as a focus, the people of Exelon will come together to make it happen."

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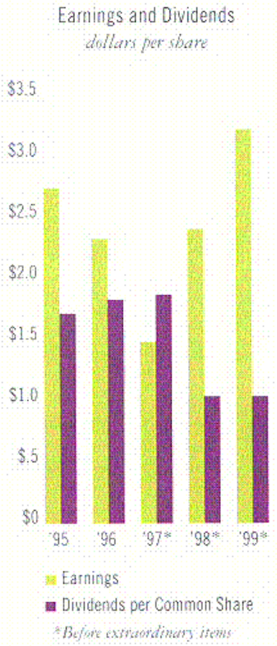
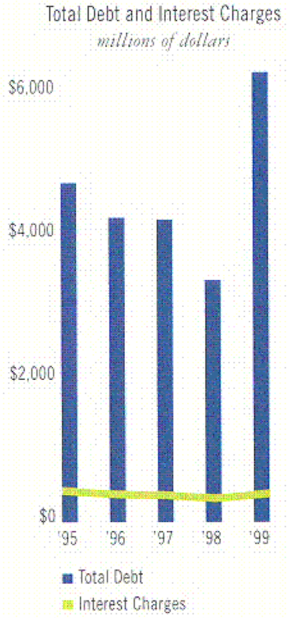
◄ Chief Integration Officer Michael Egan (center) leads a team of PECO Energy and Unicom employees who are working to ensure timely regulatory approvals and to capture operating synergies for maximum shareholder benefit.

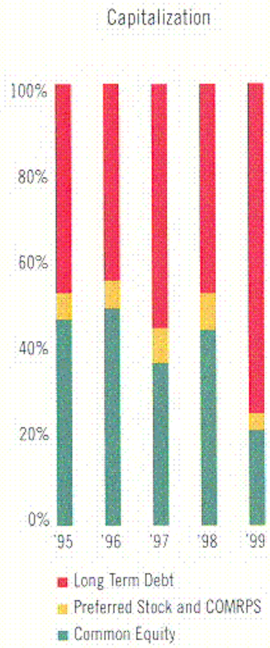
► For John Rowe (left) and Corbin McNeill (right), the creation of Exelon is the culmination of both a calculated business strategy and a shared personal vision.

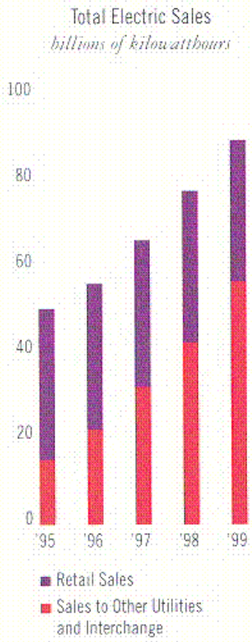
FINANCIAL CONTENTS

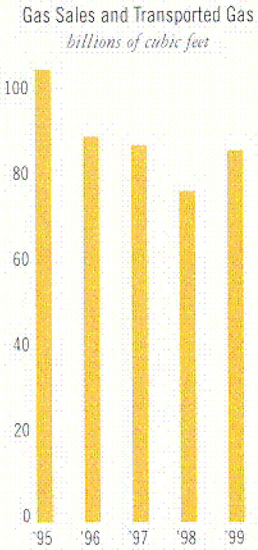
PERFORMANCE MEASUREMENTS

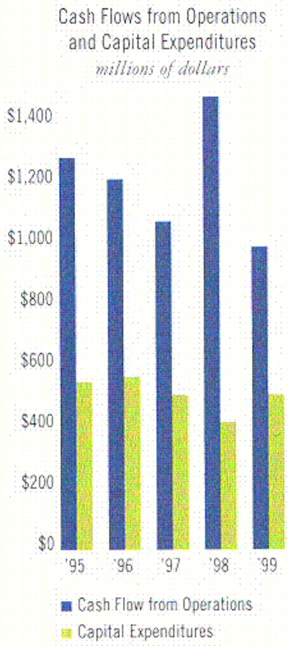












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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

On September 22, 1999, the Company and Unicom Corporation (Unicom) entered into an Agreement and Plan of Exchange and Merger providing for a merger of equals. On January 7, 2000, the Agreement and Plan of Exchange and Merger was amended and restated (Merger Agreement). The Merger Agreement has been approved by both companies' Boards of Directors. The transaction will be accounted for as a purchase with the Company as acquiror.

The Merger Agreement provides for (a) the exchange of each share of outstanding common stock, no par value, of the Company for one share of common stock of the new company, Exelon Corporation (Exelon) (Share Exchange) and (b) the merger of Unicom with and into Exelon (Merger and together with the Share Exchange, Merger Transaction). In the Merger, each share of the outstanding common stock, no par value, of Unicom will be converted into 0.875 shares of common stock of Exelon plus $3.00 in cash. In the Merger Agreement, the Company and Unicom agree to repurchase approximately $1.5 billion of common stock prior to the closing of the Merger with Unicom to repurchase approximately $1.0 billion of its common stock, and the Company to repurchase approximately $500 million of its common stock. As a result of the Share Exchange, the Company will become a wholly owned subsidiary of Exelon. As a result of the Merger, Unicom will cease to exist and its subsidiaries, including Commonwealth Edison Company, an Illinois corporation (ComEd), will become subsidiaries of Exelon. Following the Merger Transaction, Exelon will be a holding company with two principal utility subsidiaries, ComEd and the Company.

The Merger Transaction is conditioned, among other things, upon the approvals of the common shareholders of both companies and the approval of certain regulatory agencies. The companies have filed an application with the Securities and Exchange Commission (SEC) to register Exelon as a holding company under the Public Utility Holding Company Act of 1935.

The Company is engaged principally in the production, purchase, transmission, distribution and sale of electricity to residential, commercial, industrial and wholesale customers and the distribution and sale of natural gas to residential, commercial and industrial customers. Pursuant to the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act), the Commonwealth of Pennsylvania has required the unbundling of retail electric services in Pennsylvania into separate generation, transmission and distribution services with open retail competition for generation services. Since the commencement of deregulation in 1999, the Company serves as the local distribution company providing electric distribution services in its franchised service territory in southeastern Pennsylvania and bundled electric service to customers who do not choose an alternate electric generation supplier. The Company engages in the wholesale marketing of electricity on a national basis. Through its Exelon Energy division, the Company is a competitive generation supplier offering competitive energy supply to customers throughout Pennsylvania. The Company's infrastructure services subsidiary, Exelon Infrastructure Services, Inc. (EIS), provides utility infrastructure services to customers in several regions of the United States. The Company owns a 50% interest in AmerGen Energy Company, LLC (AmerGen), a joint venture with British Energy, Inc., a wholly-owned subsidiary of British Energy plc (British Energy), to acquire and operate nuclear generating facilities. The Company also participates in joint ventures which provide telecommunications services in the Philadelphia metropolitan region.

At December 31, 1997, the Company determined that its electric generation business no longer met the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." In connection with the discontinuance of SFAS No. 71, the Company performed a market value analysis of its generation assets and wrote off $1.8 billion (net of income taxes) of unrecoverable electric plant costs and regulatory assets. See Note 5 of Notes to Consolidated Financial Statements.

In May 1998, the Pennsylvania Public Utility Commission (PUC) entered an Opinion and Order (Final Restructuring Order) approving a joint petition and settlement of the Company's restructuring case. Under the Final Restructuring Order, the Company received approval to recover stranded costs of $5.3 billion over 12 years beginning January 1, 1999 with a return on the unamortized balance of 10.75%. The Final Restructuring Order provides for the phase-in of customer choice of electric generation supplier (EGS) for all customers: one-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remaining one-third on January 1, 2000. The Final Restructuring Order called for an across-the-board retail electric rate reduction of 8% in 1999. This rate reduction decreased to 6% in 2000. At December 31, 1999, approximately 17% of the Company's residential load, 39% of its commercial load and 59% of its industrial load were purchasing

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

generation service from an alternative EGS. As of that date, Exelon Energy, the Company's alternative EGS, was providing electric generation service to approximately 134,000 business and residential customers located throughout Pennsylvania. See Note 4 of Notes to Consolidated Financial Statements.

On March 25, 1999, PECO Energy Transition Trust (PETT), a wholly owned subsidiary of the Company, issued $4 billion of PETT Transition Bonds (Transition Bonds) to securitize a portion of the Company's stranded cost recovery. In accordance with the terms of the Competition Act, the Company has utilized the proceeds from the issuance of the Transition Bonds principally to reduce stranded costs including related capitalization.

The Company expects that competition for both retail and wholesale generation services will substantially affect its future results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook."

Results of Operations

The Company's Consolidated Statements of Income for 1998 and 1997 reflect the reclassification of the results of operations of the Company's non-regulated retail energy supplier, Exelon Energy, from Other Income and Deductions.

In 1999, the Company completed the redesign of its internal reporting structure to separate its distribution, generation, and ventures operations into business units and provide financial and operational data on the same basis to senior management. The Company's distribution business unit consists of its regulated operations including electric transmission and distribution services, retail sales of generation services and retail gas sales and services. The Company's generation business unit consists of its generation assets, its power marketing group, its unregulated retail energy supplier and its investment in AmerGen. The Company's ventures business unit consists of its infrastructure services business, its telecommunications equity investments and other investments. General corporate expenses include the cost of executive management, corporate accounting and finance, information technology, risk management, human resources, and legal functions and employee benefits.

In the fourth quarter of 1999, EIS acquired six infrastructure services companies. EIS, formed in the second quarter of 1999, provides infrastructure services including infrastructure construction, operation management and maintenance services to owners of electric, gas and telecommunications systems, including industrial and commercial customers, utilities and municipalities.

Significant Operating Items

Revenue and Expense Items as a Percentage of Operating Revenue				Percentage Dollar Changes	
1999	1998	1997		**1999–1998**	1998–1997
89%	92%	90%	Electric	**—%**	16%
9%	8%	10%	Gas	**11%**	(4%)
2%	—%	—%	Infrastructure Services	**100%**	—%
100%	100%	100%	Total Operating Revenues	**3%**	14%
39%	34%	28%	Fuel and Energy Interchange	**19%**	39%
25%	22%	31%	Operating and Maintenance	**22%**	(20%)
—%	2%	—%	Early Retirement and Separation Programs	**(100%)**	100%
4%	12%	13%	Depreciation and Amortization	**(63%)**	11%
5%	5%	7%	Taxes Other Than Income	**(6%)**	(10%)
73%	75%	79%	Total Operating Expenses	**1%**	10%
27%	25%	21%	Operating Income	**10%**	28%
(8%)	(7%)	(8%)	Interest Charges	**15%**	(6%)
(1%)	(1%)	—%	Equity in Losses of Telecommunications Investments	**(30%)**	283%
—%	(1%)	1%	Other Income and Deductions	**188%**	(217%)
18%	16%	14%	Income Before Income Taxes and Extraordinary Item	**15%**	35%
7%	6%	6%	Income Taxes	**12%**	9%
11%	10%	8%	Income Before Extraordinary Item	**16%**	58%

Year Ended December 31, 1999
Compared To Year Ended December 31, 1998

Operating Revenues Electric revenues increased $17 million to $4,847 million in 1999. The increase was primarily attributable to higher revenues from the generation business unit of $589 million, partially offset by lower revenues from the distribution business unit of $572 million.

The increase from the generation business unit was attributable to $473 million from increased volume in Pennsylvania as a result of the sale of competitive electric generation services by Exelon Energy, increased wholesale revenues of $133 million from the marketing of excess generation capacity as a result of retail competition and revenues of $99 million from the sale of generation from Clinton Nuclear Power Station (Clinton) to Illinois Power (IP), partially offset by the inclusion of $116 million of PJM Interconnection, L.L.C. (PJM) network transmission service revenue in 1998. The decrease from the distribution business unit was primarily attributable to lower volume associated with the effects of retail competition of $508 million and $278 million related to the 8% across-the-board rate reduction mandated by the Final

Restructuring Order. These decreases were partially offset by $149 million of PJM network transmission service revenue and $59 million related to higher volume as a result of weather conditions as compared to 1998. PJM network transmission service revenues and charges which commenced April 1, 1998 were recorded in the generation business unit in 1998 but are being recognized by the distribution business unit in 1999 as a result of the Federal Energy Regulatory Commission (FERC) approval of the PJM Regional Transmission Owners' rate case settlements. Stranded cost recovery is included in the Company's retail electric rates beginning January 1, 1999.

Under its Amended Management Agreement with IP, effective April 1, 1999, the Company was responsible for the payment of all direct operating and maintenance (O&M) costs and direct capital costs incurred by IP and allocable to the operation of Clinton. These costs are reflected in the Company's O&M expenses. IP was responsible for fuel and indirect costs such as pension benefits, payroll taxes and property taxes. Following the restart of Clinton on June 2, 1999, and through December 15, 1999, the Company agreed to sell 80% of the output of Clinton to IP. The remaining output was sold by the Company in the wholesale market. Under a separate agreement with the Company, British Energy agreed to share 50% of the costs and revenues associated with the Amended Management Agreement. Effective December 15, 1999, AmerGen acquired Clinton. Accordingly, the results of operations of Clinton have been accounted for under the equity method of accounting in the Company's Consolidated Statements of Income since the acquisition date.

Gas revenues increased $48 million, or 11%, to $481 million in 1999 primarily as a result of higher revenues from the distribution business unit of $50 million. The increase in the distribution business unit was primarily attributable to increased volume as a result of weather conditions of $27 million and increased volume from new and existing customers of $20 million as compared to 1998. This increase was partially offset by lower revenues from the generation business unit of $2 million, primarily attributable to lower volume from existing customers of Exelon Energy.

Infrastructure services revenues increased $109 million as a result of growth from the EIS acquisitions in 1999.

Fuel and Energy Interchange Expense Fuel and energy interchange expense increased $349 million, or 19%, to $2,145 million in 1999. The increase was attributable to higher fuel and energy interchange expenses associated with the distribution business unit of $187 million and the generation business unit of $162 million.

The increase from the distribution business unit was attributable to $98 million of PJM network transmission service charges, $51 million of purchases in the spot market and $38 million of additional volume as a result of weather conditions. The increase from the generation business unit was primarily attributable to $565 million related to increased volume from Exelon Energy sales and a $36 million reserve related to the Massachusetts Health and Education Authority (HEFA) contract as a result of higher than anticipated cost of supply in the New England power pool. These increases were partially offset by $277 million of fuel savings from wholesale operations as a result of lower volume and efficient operation of the Company's generating assets, the inclusion of PJM network transmission service charges of $116 million in 1998, and the reversal of $27 million in reserves associated with the Grays Ferry Cogeneration Partnership (Grays Ferry) in connection with the final settlement of litigation and expected prices of electricity over the remaining life of the power purchase agreements. In addition, the Company experienced $19 million of fuel savings associated with the full return to service of Salem Generating Station (Salem) in April 1998 which decreased the need to purchase power to replace the output from these units.

As a percentage of revenue, fuel and energy interchange expense was 39% as compared to 34% in 1998. The increase was primarily attributable to reduced margins resulting from retail competition for generation services.

Operating and Maintenance Expense O&M expense, exclusive of the Early Retirement and Separation charge of $124 million incurred in 1998, increased $249 million, or 22%, to $1,384 million in 1999. As a percentage of revenue, O&M expense was 25% as compared to 22% in 1998. The increase in O&M expense was attributable to higher O&M expenses associated with the generation business unit of $112 million, the ventures business unit of $109 million and corporate of $28 million.

The increase from the generation business was primarily a result of $70 million related to Clinton, $24 million related to the growth of Exelon Energy, $13 million of charges related to the abandonment of two information systems implementations, $10 million associated with the Salem inventory write-off for excess and obsolete inventory, and $7 million related to the true-up of 1998 reimbursement of joint-owner expenses. These decreases were partially offset by $10 million of lower O&M expenses as a result of the full return to service of Salem in April 1998. The increase from the ventures business unit was

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

related to the infrastructure services business. In addition, the Company incurred additional corporate costs including $15 million associated with Year 2000 (Y2K) remediation expenditures, $11 million of compensation expense and $9 million related to nuclear property insurance, partially offset by $17 million of lower pension and post-retirement benefit expense primarily as a result of the performance of the investments in the Company's pension plan. The distribution business unit's O&M expenses were consistent with the prior year and included $11 million of additional expenses related to restoration activities as a result of Hurricane Floyd which were offset by lower electric transmission and distribution expenses.

Depreciation and Amortization Expense Depreciation and amortization expense decreased $406 million, or 63%, to $237 million in 1999. As a percentage of revenue, depreciation and amortization expense was 4% as compared to 12% in 1998. The decrease in depreciation and amortization expense was associated with the December 1997 restructuring charge through which the Company wrote down a significant portion of its generating plant and regulatory assets. In connection with this restructuring charge, the Company reduced generation-related assets by $8.4 billion, established a regulatory asset, Deferred Generation Costs Recoverable in Current Rates of $424 million, which was fully amortized in 1998, and established an additional regulatory asset, Competitive Transition Charge (CTC) of $5.3 billion, which will begin to be amortized in 2000 in accordance with the terms of the Final Restructuring Order.

Taxes Other Than Income Taxes other than income decreased $18 million, or 6%, to $262 million in 1999. As a percentage of revenue, taxes other than income were 5%, which was consistent with 1998. The decrease in taxes other than income was primarily attributable to a $34 million credit related to an adjustment of the Company's Pennsylvania capital stock tax base as a result of the 1997 restructuring charge, partially offset by an increase of $17 million in real estate taxes as a result of changes in tax laws for utility property in Pennsylvania.

Interest Charges Interest charges consist of interest expense, distributions on Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS) and Allowance for Funds Used During Construction (AFUDC). Interest charges increased $55 million, or 15%, to $413 million in 1999. As a percentage of revenue, interest charges were 8% as compared to 7% in 1998. The increase in interest charges was primarily attributable to interest on the Transition Bonds of $179 million, partially offset by a $98 million reduction in interest charges resulting from the use of Transition Bond proceeds to repay long-term debt and COMRPS. In addition, the Company's ongoing program to reduce or refinance higher cost, long-term debt reduced interest charges by $26 million.

Equity in Losses of Telecommunications Investments Equity in losses of telecommunications investments decreased $17 million or 30%, to $38 million in 1999. The lower losses are attributable to customer base growth for each of the Company's telecommunications joint ventures.

Other Income and Deductions Other income and deductions, excluding interest charges and equity in losses of telecommunications investments, increased $40 million, or 188%, to income of $19 million in 1999 as compared to a loss of $21 million in 1998. The increase in other income and deductions was primarily attributable to $28 million of interest income earned on the unused portion of the Transition Bond proceeds prior to application, $14 million of gain on the sale of assets, a $10 million donation to a City of Philadelphia street lighting project in 1998 and a $7 million write-off of a non-regulated business venture in 1998. These increases were partially offset by a $15 million write-off of the investment in Grays Ferry in connection with the settlement of litigation.

Income Taxes The effective tax rate was 36.6% in 1999 as compared to 37.5% in 1998. The decrease in the effective tax rate was primarily attributable to an income tax benefit of approximately $11 million related to the favorable resolution of certain outstanding issues in connection with the settlement of an Internal Revenue Service audit and tax benefits associated with the implementation of state tax planning strategies, partially offset by the non-recognition for state income tax purposes of certain operating losses.

Extraordinary Items In 1999, the Company incurred extraordinary charges aggregating $62 million ($37 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of $811 million of First Mortgage Bonds with a portion of the Transition Bond proceeds and the refinancing of $156 million of pollution control notes.

In 1998, the Company incurred extraordinary charges aggregating $33 million ($20 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of $525 million of First Mortgage Bonds.

Preferred Stock Dividends Preferred stock dividends decreased $1 million or 7%, to $12 million in 1999. The decrease was attributable to the retirement of $37 million of preferred stock in August 1999 with a portion of the Transaction Bond proceeds.

Earnings Earnings applicable to common stock increased $71 million, or 14%, to $570 million in 1999. Earnings per average common share increased $0.67 per share or 30%, to $2.91 per share in 1999, reflecting the increase in net income and a decrease in the weighted average shares of common stock outstanding as a result of the repurchase of approximately 44.1 million shares with a portion of the Transition Bond proceeds.

Operating Revenues Electric revenues increased $680 million, or 16%, to $4,830 million in 1998. The increase was attributable to higher revenues from the generation business unit of $682 million, partially offset by lower revenues from the distribution business unit of $2 million.

The increase from the generation business unit was primarily attributable to increased wholesale revenues of $663 million as a result of higher volume attributable to more favorable weather and market conditions and revenues associated with the pilot program for retail competition of $19 million which commenced in 1998. The decrease from the distribution business unit was primarily attributable to a greater portion of its volume being derived from customers in lower rate classes of $57 million, partially offset by increased volume as a result of weather conditions of $55 million.

Gas revenues decreased $18 million, or 4%, to $433 million in 1998. The decrease was attributable to lower revenues from the distribution business unit of $52 million, partially offset by higher revenues from the generation business unit of $34 million.

The decrease from the distribution unit was primarily attributable to lower volume as a result of less favorable weather conditions of $47 million and lower volume from existing customers of $5 million. The increase from the generation business unit was attributable to gas revenues from gas deregulation pilot program outside of Pennsylvania of $34 million.

Fuel and Energy Interchange Expense Fuel and energy interchange expense increased $506 million, or 39%, to $1,796 million in 1998. The increase was attributable to higher fuel and energy interchange expenses associated with the generation business unit of $532 million, partially offset by lower fuel and energy interchange expenses from the distribution business unit of $26 million.

The increase from the generation business unit was attributable to increased volume from wholesale operations of $608 million and additional fuel expense related to the pilot program for retail competition of $44 million, partially offset by fuel savings of $120 million associated with the full return to service of Salem in April 1998 which decreased the need to purchase power to replace the output from these units. The decrease from the distribution business unit was primarily attributable to lower gas volume associated with less favorable weather conditions.

As a percentage of revenue, fuel and energy interchange expenses were 34% as compared to 28% in 1997. The increase was primarily attributable to increased energy interchange purchases to support increased wholesale volume.

Operating and Maintenance Expense Exclusive of certain one-time charges totaling $187 million that occurred in 1997, O&M expense decreased $93 million, or 7%, to $1,135 million in 1998. As a percentage of revenue, operating and maintenance expenses were 22% as compared to 31% in 1997. The decrease in O&M expense was attributable to lower O&M expense associated with the distribution business unit of $41 million, corporate of $34 million, and the generation business unit of $18 million.

The one-time charges incurred in 1997 consisted of $37 million for environmental remediation, $33 million as a result of a change in fringe benefit policies relating to sick and vacation time, $27 million for joint-owner expenses related to the discontinuance of SFAS No. 71, $24 million in workers' compensation claim reserves, $21 million for excess and obsolete inventory, $16 million for the write-off of information systems development charges in accordance with EITF Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation," $13 million for the write-off of a customer service information system and $16 million of other reserves including the write-off of appliance sale accounts receivable and losses on the sales of real estate.

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The decrease from the distribution business unit was primarily the result of lower uncollectible expenses of $28 million as a result of the implementation of new collection procedures and lower transmission and distribution expenses of $27 million as a result of system reliability improvements made in 1997. These decreases were partially offset by a $12 million reserve for Customer Assistance Program receivables mandated by the Final Restructuring Order. The decrease from corporate was primarily attributable to lower pension expense of $31 million as a result of the performance of the investments in the Company's pension plan, lower property insurance expense of $14 million, lower post-retirement benefit expense of $14 million as a result of the reclassification of these expenses to Deferred Generation Costs Recoverable in Current Rates and lower workers' compensation expense of $11 million. These decreases were partially offset by Y2K remediation expenditures of $15 million. The decrease from the generation business unit was primarily attributable to the full return to service of Salem which resulted in lower restart expenses of $38 million, partially offset by increased power marketing expenses of $20 million.

Early Retirement and Separation Programs In April 1998, the Board of Directors authorized the implementation of a retirement incentive program and an enhanced severance benefit program. The retirement incentive program allowed employees age 50 and older, who have been designated as excess or who are in job classifications facing reduction, to retire from the Company. The enhanced severance benefit program provided non-retiring excess employees with fewer than ten years of service benefits equal to two weeks pay per year of service. Non-retiring excess employees with more than ten years of service received benefits equal to three weeks pay per year of service.

In 1998, the Company incurred a charge of $125 million ($74 million, net of income taxes) for its Early Retirement and Separation Program relating to 1,157 employees across the Company who were considered excess or were in job classifications facing reduction. Of the 1,157 employees, 711 were eligible for and agreed to take the retirement incentive program. The remaining employees were eligible for the enhanced severance benefit program. As of December 31, 1999, 494 employees were eligible for and have taken the retirement incentive program and 433 employees were terminated with the enhanced severance benefit program. The remaining employees are scheduled for termination through the end of June 2000.

The charge for Early Retirement and Separation Program consisted of the following: $121 million for the actuarially determined pension and other postretirement benefits costs and $4 million for outplacement services costs and the continuation of benefits for one year. Approximately $0.8 million of the $125 million charge was related to the Company's non-utility operations and accordingly was recorded in Other Income and Deductions. The reserve for separation benefits was approximately $47 million, of which $28 million was paid through December 31, 1999. The remaining balance of $19 million is expected to be paid by June 2000. Retirement benefits of approximately $78 million are being paid to the retirees over their lives. All cash payments related to the early retirement and severance program are expected to be funded through the assets of the Company's Service Annuity Plan.

Depreciation and Amortization Expense Depreciation and amortization expense increased $62 million, or 11%, to $643 million in 1998. As a percentage of revenue, depreciation and amortization expense was 12% as compared to 13% in 1997. The increase in depreciation and amortization expense was primarily associated with the amortization of Deferred Generation Costs Recoverable in Current Rates during 1998. Included in this amortization were $37 million of charges that were included in operating and maintenance expense and interest expense in 1997.

Taxes Other Than Income Taxes other than income decreased $31 million, or 10%, to $280 million in 1998. As a percentage of revenue, taxes other than income were 5%, as compared to 7% in 1997. The decrease in taxes other than income was primarily attributable to lower real estate taxes of $14 million, lower gross receipts tax of $8 million and lower capital stock tax of $5 million.

Interest Charges Interest charges decreased $22 million, or 6%, to $358 million in 1998. As a percentage of revenue, interest charges were 7% as compared to 8% in 1997. The decrease in interest charges was primarily attributable to interest savings of $18 million from the Company's program to reduce and/or refinance higher cost, long-term debt and the discontinuance of amortization of the loss on reacquired debt of $16 million related to electric generation operations as of December 31, 1997. These decreases were partially offset by $11 million of lower AFUDC and capitalized interest resulting from fewer projects in the construction base in 1998 and the replacement of $62 million of preferred stock with COMRPS in the third quarter of 1997.

Equity in Losses of Telecommunications Investments Equity in losses of telecommunications investments increased $40 million or 283%, to $54 million in 1998. The increased losses were principally attributable to the first full year of service for the Company's telecommunications joint ventures in 1998. Both of the Company's telecommunications joint ventures commenced operations in 1997.

Other Income and Deductions Other income and deductions, excluding interest charges and equity in losses of telecommunications investments, decreased $39 million, or 217% to a loss of $21 million in 1998 as compared to a gain of $18 million in 1997. The decrease in other income and deductions was primarily attributable to a $70 million settlement of litigation arising from the shutdown of Salem in 1997, a $10 million donation to a City of Philadelphia street lighting project and a $7 million write-off of a non-regulated business venture. These decreases were partially offset by a $14 million settlement of a power purchase agreement, $17 million of interest income related to a gross receipts tax refund and a $20 million write-off of a telecommunications investment in 1997.

Income Taxes The effective tax rate was 37.5% in 1998 as compared to 46.5% in 1997. The decrease in the effective tax rate was primarily attributable to the full normalization of deferred taxes associated with deregulated generation plant.

Extraordinary Items In 1998, the Company incurred extraordinary charges aggregating $33 million ($20 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of $525 million of First Mortgage Bonds.

In 1997, the Company recorded an extraordinary charge of $3.1 billion ($1.8 billion, net of taxes) for electric generation-related stranded costs that will not be recovered from customers.

Preferred Stock Dividends Preferred stock dividends decreased $4 million or 22%, to $13 million in 1998. The decrease was attributable to the replacement of $62 million of preferred stock with COMRPS in the third quarter of 1997.

Earnings Earnings applicable to common stock increased $2,013 million to $500 million in 1998. Earnings per average common share increased $9.04 per share from a loss of $6.80 per share in 1997 to income of $2.24 per share in 1998. These increases reflect the effects of the restructuring charge incurred in 1997 and the increase in income before extraordinary item.

The Company's capital resources are primarily provided by internally generated cash flows from utility operations and, to the extent necessary, external financing. Capital resources are used primarily to fund the Company's capital requirements, including investments in new and existing ventures, to repay maturing debt and to make preferred and common stock dividend payments.

On March 25, 1999, PETT issued $4 billion of its Transition Bonds to securitize a portion of the Company's authorized stranded cost recovery. PETT used the $3.95 billion of proceeds from the issuance of Transition Bonds to purchase the Intangible Transition Property (ITP) from the Company. In accordance with the Competition Act, the Company utilized the proceeds from the securitization of a portion of its stranded cost recovery principally to reduce stranded costs including related capitalization. The Company utilized the net proceeds, and interest income earned on the net proceeds, to repurchase 44.1 million shares of common stock for an aggregate purchase price of $1,705 million and $150 million of accounts receivable; to retire: $811 million of First Mortgage Bonds, a $400 million term loan, $532 million of commercial paper, a $139 million capital lease obligation and $37 million of preferred stock; to redeem $221 million of COMRPS; and to pay $25 million of debt issuance costs.

As a result of the issuance of the Transition Bonds and the application of the proceeds thereof, at December 31, 1999, the Company's capital structure consisted of 21.6% common equity; 4.0% preferred stock and COMRPS (which comprised 1.6% of the Company's total capitalization structure); and 74.4% long-term debt including Transition Bonds issued by PETT (which comprised 64.8% of the Company's long-term debt).

The weighted average cost of debt and preferred securities that have been retired was approximately 7.2%. The additional interest expense associated with the Transition Bonds, which currently have an effective interest rate of approximately 5.8%, is partially offset by the interest savings associated with the debt and preferred securities that have been retired. The Company currently estimates that the impact of this additional expense, combined with the reduction in common equity, will result in earnings per share benefits of approximately $0.50 in 2000 as compared to $0.28 in 1999.

The Transition Bonds are solely obligations of PETT, secured by the ITP sold by the Company to PETT, but are included in the consolidated long-term debt of the Company. Upon issuance of

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the Transition Bonds, a portion of the CTC being collected by the Company to recover stranded costs was designated as Intangible Transition Charge (ITC). The ITC is an irrevocable non-bypassable, usage-based charge that is calculated to allow for the recovery of debt service and costs related to the issuance of the Transition Bonds. The ITC revenue, as well as all interest expense and amortization expense associated with the Transition Bonds, is reflected on the Company's Consolidated Statements of Income. The combined schedule for amortization of the CTC and ITC assets is in accordance with the amortization schedule set forth in the Final Restructuring Order.

On March 16, 2000, the PUC issued an order approving a Joint Petition for Full Settlement of PECO Energy Company's Application for Issuance of a Qualified Rate Order (QRO) authorizing the Company to securitize up to an additional $1 billion of its authorized recoverable stranded costs. In accordance with the terms of the Joint Petition for Full Settlement, when the QRO becomes final and non-appealable, the Company, through its distribution business unit, will provide its retail customers with rate reductions in the total amount of $60 million beginning on January 1, 2001. This rate reduction will be effective for calendar year 2001 only and will not be contingent upon the issuance of additional transition bonds pursuant to the QRO. The Company will use the proceeds from any additional securitization principally to reduce stranded costs including related capitalization.

In January 2000, in connection with the Merger Agreement, the Company entered into a forward purchase agreement to purchase up to $500 million of its common stock from time to time through open-market, privately negotiated and/or other types of transactions in conformity with the rules of the SEC. This forward purchase agreement can be settled from time to time, at the Company's election, on a physical, net share or net cash basis. The amount at which these agreements can be settled is dependent principally upon the market price of the Company's common stock as compared to the forward purchase price per share and the number of shares to be settled.

Cash flows from operations were $888 million in 1999 as compared to $1,492 million in 1998 and $1,068 million in 1997. The decrease in 1999 was principally attributable to a reduction in cash generated by operations of $308 million and changes in working capital of $296 million, principally related to accounts receivable from unregulated energy sales and the repurchase of accounts receivable with a portion of the proceeds from the issuance of Transition Bonds.

Cash flows used in investing activities were $885 million in 1999 as compared to $521 million in 1998 and $604 million in 1997. Expenditures under the Company's construction program increased by $76 million to $491 million in 1999. The Company acquired six infrastructure services companies for $222 million and made investments in and advances to joint ventures of $118 million. Net funds invested in other activities in 1999 were $54 million, including $29 million for nuclear plant decommissioning trust fund contributions, $22 million for costs of removal of retired plant and $15 million for other investments, partially offset by proceeds from the sale of investments of $12 million.

Cash flows provided by financing activities were $177 million in 1999 as compared to cash flows used in financing activities of $956 million in 1998 and $461 million in 1997. Cash flows from financing activities in 1999 were primarily attributable to the securitization of stranded cost recovery and the use of related proceeds.

The Company estimates that it will spend approximately $927 million for capital expenditures and other investments in 2000. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted. The Company has commitments to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2000. As of December 31, 1999, the Company expects to make $97 million of capital contributions, excluding nuclear fuel, if all of the acquisition agreements that AmerGen entered into in 1999 close in 2000. In addition, the Company and British Energy have each agreed to provide up to $55 million to AmerGen at any time for operating expenses. See Note 26 of Notes to Consolidated Financial Statements. The Company has entered into three long-term power purchase agreements with Independent Power Producers (IPP) under which the Company makes fixed capacity payments to the IPP in return for exclusive rights to the energy and capacity of the generating units for a fixed period. The terms of the long-term power purchase agreements enable the Company to supply the fuel and dispatch energy from the plants. The plants are currently being constructed and are scheduled to begin operations in 2000, 2001 and 2002, respectively. The Company expects to make capacity payments of $18 million in 2000. In 1999, the Company entered into a lease for two buildings that will be the headquarters for its generation business unit. These buildings are being constructed in Kennett Square, Pennsylvania and are anticipated to be completed on or about June 1, 2000 and September 1, 2000, respectively. The lease terms are for 20 years with renewal options. Estimated lease payments for 2000 are $4 million.

The Company meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under bank credit facilities. The Company has a $900 million unsecured revolving credit facility with a group of banks, which consists of a $450 million 364-day credit agreement and a $450 million three-year credit agreement. The Company uses the credit facility principally to support its $600 million commercial paper program.

At December 31, 1999, the Company had outstanding $163 million of notes payable, $142 million of which were commercial paper and $21 million of lines of credit. In addition, at December 31, 1999, the Company had available formal and informal lines of bank credit aggregating $100 million and available revolving credit facilities aggregating $900 million which support its commercial paper program. At December 31, 1999, the Company had no short-term investments.

The Company is exposed to market risks associated with commodity price and supply, interest rates and equity prices.

Commodity Risk The Company engages in the wholesale and retail marketing of electricity, and, accordingly, is exposed to risk associated with the price of electricity.

The Company's wholesale operations include the physical delivery and marketing of power obtained through Company-owned generation capacity and long, intermediate and short-term contracts. The Company maintains a net positive supply of energy and capacity, through Company-owned generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. These operations have resulted in the expansion of the Company's load-servicing capabilities beyond its primary operating environment, the PJM control area. A majority of the Company's contractual supplies may be economically moved into this primary operating environment. The Company has also contracted for access to additional generation through bilateral long-term power purchase agreements. These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature — similar to asset ownership. The Company enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers, and generally with the ability to import these supplies to PJM to displace more expensive energy supplied by Company-owned generation assets. The Company has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The intent and business objective for the use of its capital assets and contracts is the same — provide the Company with physical power supply to enable it to deliver energy to meet customer needs. The Company's principal risk management activities focus on management of volume risks (supply and transmission) and operational risks (plant or transmission outages) consistent with its business philosophy, not price risks. The Company does not use financial contracts in its wholesale marketing activities and as a matter of business practice does not "pair off" or net settle its contracts. All contracts result in the delivery and/or receipt of power.

The Company has entered into bilateral long-term contractual obligations for sales of energy to other load-serving entities including electric utilities, municipalities, electric cooperatives, and retail load aggregators. The Company also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. The Company provides delivery of its energy to these customers in and out of PJM through access to Company-owned transmission assets or rights for firm transmission.

The Company completed a thorough review of its activities after the issuance of EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" in the first quarter of 1999 and concluded, based on the indicators included in EITF 98-10, that its activities were not "trading" activities. The Company continues to believe that its business philosophy, performance measurement and other management activities are not consistent with that of a "trading organization." The Company's short-term and long-term commitments to purchase and sell energy and energy-related products are carried at the lower of cost or market. The Company reports the revenue and expense associated with all of its energy contracts at the time the underlying physical transaction closes consistent with its business philosophy of generating and delivering physical power to customers.

The Company's retail operations include the regulated sales of electricity through its distribution business unit and unregulated sales of electricity through its generation business unit. Both energy suppliers secure supply through the Company's wholesale operations. The transmission and distribution component of the Company's rates for regulated sales of electricity are capped

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through December 2006. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, will remain in effect through 2010. Accordingly, the Company does not have the ability to pass on increases in the price of electricity through rate increases to its customers. As of December 31, 1999, a hypothetical 10% increase in the cost of electricity would result in a $82 million decrease in pretax earnings for 2000. The Company's rates for unregulated sales of electricity are not subject to rate caps.

Under the Final Restructuring Order, the Company's customers have been permitted to shop for their generation supplier since January 1, 1999. The Final Restructuring Order established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a Company affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including 20% of residential customers assigned to an EGS as a PLR default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process. As of December 31, 1999, the Company estimates that the impact on pretax earnings for 2000 would be insignificant.

Interest Rate Risk The Company uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. As of December 31, 1999, a hypothetical 10% increase in the interest rates associated with variable rate debt would result in a $1 million decrease in pretax earnings for 2000.

The Company has entered into interest rate swaps to manage interest rate exposure associated with the floating rate series of Transition Bonds. At December 31, 1999, these interest rate swaps had a fair market value of $102 million which was based on the present value difference between the contracted rate and the market rates at December 31, 1999.

The aggregate fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 1999 is estimated to be $63 million. If the derivative instruments had been terminated at December 31, 1999, this estimated fair value represents the amount to be paid by the counterparties to the Company.

The aggregate fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 1999 is estimated to be $137 million. If the derivative instruments had been terminated at December 31, 1999, this estimated fair value represents the amount to be paid by the counterparties to the Company.

In February 2000, the Company entered into forward starting interest rate swaps for a notional amount of $1 billion in anticipation of the issuance of $1 billion of transition bonds in the second quarter of 2000.

Equity Price Risk The Company maintains trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of decommissioning its nuclear plants. As of December 31, 1999, these funds were invested primarily in domestic equity securities and fixed rate, fixed income securities and are reflected at fair value on the Consolidated Balance Sheet. The mix of securities is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the trusts are exposed to price fluctuations in equity markets, and the value of fixed rate, fixed income securities are exposed to changes in interest rates. The Company actively monitors the investment performance and periodically reviews asset allocation in accordance with the Company's nuclear decommissioning trust investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $29 million reduction in the fair value of the trust assets. The Company's restructuring settlement agreement provides for the collection of authorized nuclear decommissioning costs through the CTC. Additionally, the Company is permitted to seek recovery from customers of any increases in these costs. Therefore, the Company's equity price risk is expected to remain immaterial.

Outlook

General The Company has entered a period of financial uncertainty as a result of the deregulation of its electric generation operations. The Final Restructuring Order and retail competition have resulted in reduced revenues from regulated rates. In addition, the Company is selling an increasing portion of its energy at market-based rates. The Company believes that the deregulation of its electric generation operations and other regulatory initiatives designed to encourage competition have increased the Company's risk profile by changing and increasing the number of factors upon which the Company's financial results are dependent. This may result in more volatility in the Company's future results of operations. The Company believes that it has significant advantages that will strengthen its position in the increasingly competitive electric generation environment. These advantages include the ability to produce and contract for electricity at a low variable cost and the demonstrated ability to market and deliver power in the competitive wholesale markets.

The Company's future financial condition and results of operations are substantially dependent upon the effects of the Final Restructuring Order and retail and wholesale competition for generation services. Additional factors that affect the Company's financial condition and results of operations include operation of nuclear generating facilities, gas restructuring in Pennsylvania, new accounting pronouncements, inflation, weather, compliance with environmental regulations and the profitability of the Company's investments in EIS and other new ventures.

Merger As a result of legislative initiatives aimed at restructuring, the electric utility industry has undergone rapid change in recent years. Among other things, competition has increased, particularly with respect to energy supply and retail energy services. Many states, including the states in which the Company and Unicom currently operate, have either passed or proposed legislation that provides for retail electric competition and deregulation of the price of energy supply. In addition, the wholesale electric energy market has significantly expanded and geographic boundaries are becoming less important. During 1999, a substantial amount of electric generation assets were sold in the United States. The Company expects this trend to continue. Mergers continue at a rapid pace not only between electric companies, but also between electric and gas companies that are seeking to capture value through the convergence of the two industries. At the same time, other companies are focusing on specific portions of the energy industry by disaggregating their generation, transmission, distribution and retail operations, spinning off non-core assets and acquiring assets consistent with their strategic focus. Currently, industry participants are attempting to prepare themselves for increased competition and position themselves to take advantage of these trends.

The Company believes that the consolidation and transformation of the electric and natural gas segments of the energy industry will result in the emergence of a limited number of substantial competitors. These large entities will have assets and skills that are necessary to create value in one or more of the traditional segments of the utility industry. The Company believes that companies that have the financial strength, strategic foresight and operational skills to establish scale and an early leadership position in key segments of the energy industry will be best positioned to compete in the new marketplace.

The Company's Board of Directors has focused significant attention on strategic planning to adapt to the evolving competitive environment. The strategic planning activities have concentrated on those factors that would best position the Company for enhanced shareholder value and continued leadership in the competitive energy marketplace.

The Company and Unicom are aggressively pursuing all necessary regulatory approvals and expect to complete the Merger in the second half of 2000. While the Company believes that the parties will receive the necessary regulatory approvals, a substantial delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in the approvals could have a material adverse effect on the business, financial condition or results of operations of the Company or Unicom or may cause the abandonment of the Merger. In addition to other factors, the price of shares of the Company's common stock may vary significantly as a result of market expectations of the likelihood that the Merger will be completed and the timing of completion, the prospects of post-merger operations, including the successful consolidation and integration of the Company's and Unicom's organizations and the effect of any conditions or restrictions imposed on or proposed with respect to the combined company by regulators.

On March 24, 2000, the Company submitted for approval a joint petition for settlement reached with various parties to the Company's proceeding before the PUC involving the proposed Merger with Unicom. The Company reached agreement with advocates for residential, small business and large industrial customers, and representatives of marketers, environmentalists, municipalities and elected officials. Under the comprehensive settlement agreement, the Company has agreed to $200 million in rate reductions for all customers over the period January 1, 2002 through 2005 and extended rate caps on the Company's retail electric distribution charges through December 31, 2006, electric reliability and customer service standards, mechanisms to enhance competition and customer choice, expanded assistance to low-income customers, extensive funding for wind and solar energy and community education, nuclear safety research funds, customer protection against nuclear costs outside of Pennsylvania,

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and maintenance of charitable and civic contributions and employment for the Company's headquarters in Philadelphia.

Competition The Final Restructuring Order contains a number of provisions that are designed to encourage competition for generation services. The provisions include above-market shopping credits for generation service which provide an economic incentive for customers to choose an alternate EGS, periodic assignments of a portion of the Company's non-shopping customers to alternate EGSs and the selection of an alternate supplier as the PLR for a portion of the Company's customers.

The Final Restructuring Order established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a Company affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including 20% of residential customers assigned to an EGS as a PLR default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process.

The Final Restructuring Order requires that on January 1, 2001, 20% of all of the Company's residential customers, determined by random selection and without regard to whether such customers are obtaining generation service from an alternate EGS, shall be assigned to a PLR default supplier other than the Company through a PUC-approved bidding process.

The Final Restructuring Order caps the Company's retail transmission and distribution rates at their current levels through June 30, 2005. The Final Restructuring Order also established rate caps for generation services, consisting of the charge for stranded cost recovery and a charge for energy and capacity, through 2010. The rate caps limit the Company's ability to pass cost increases through to customers, but also allows the Company to retain cost savings.

The Company's recovery of stranded costs is based on the level of transition charges established in the Final Restructuring Order and the projected annual retail sales in the Company's service territory. Recovery of transition charges for stranded costs and the Company's allowed return on its recovery of stranded costs are included in operating revenue. In 1999, CTC revenue was $565 million and is scheduled to increase to $932 million by 2010, the final year of stranded cost recovery. Amortization of the Company's stranded cost recovery, which is a regulatory asset, will be included in depreciation and amortization beginning in 2000. As provided by the Final Restructuring Order, there was no amortization of this regulatory asset in 1999. The amortization expense for 2000 will be approximately $43 million and will increase to $879 million by 2010.

The Company competes in deregulated retail electric generation markets and the national wholesale electric generation market. Competition for electric generation services has created new uncertainties in the utility industry. These uncertainties include future prices of generation services in both the wholesale and retail markets; changes in the Company's customer profiles, both at the retail level where change is expected to be ongoing as a result of customer choice, and between the retail and wholesale markets; and supply and demand volatility.

The Company, through Exelon Energy, the Company's new competitive supplier, actively competes for a share of the generation supply market throughout Pennsylvania. The Company also participates in the generation supply market in its traditional service territory through its distribution business unit. The charge for energy services provided by the distribution business unit is mandated by the Final Restructuring Order. The charge for energy services offered by Exelon Energy are at competitive market prices. Customers who continue to take generation service from the distribution business unit may choose an alternate EGS at any time. Because the shopping credit established by the PUC in the Restructuring Order remains above current retail market prices for generation services, including those offered by Exelon Energy, the Company's retail revenues will be reduced to the extent customers choose an alternate EGS, including Exelon Energy. Since prices in the competitive retail and wholesale markets are currently lower on average than those charged by the distribution business unit, this will adversely affect the Company's revenues and profit margins.

The Company is a low variable-cost electricity producer, which puts it in a favorable position to take advantage of opportunities in the electric retail and wholesale generation markets. The Company's competitive position and its future financial condition and results of operations are dependent on the Company's ability to successfully operate its low variable-cost power plants and market its power effectively in competitive wholesale markets.

The Company competes in the wholesale market by selling energy and capacity from the Company's installed capacity not utilized in the retail market and buying and selling energy from third parties. The Company's wholesale power marketing activities include short-term and long-term commitments to purchase and sell energy and energy-related products with the intent and ability to deliver or take delivery. See Notes 1 and 6 of Notes to Consolidated Financial Statements.

On June 22, 1999, Pennsylvania Governor Tom Ridge signed into law the Natural Gas Choice and Competition Act (Act) which expands choice of gas suppliers to residential and small commercial customers and eliminates the 5% gross receipts tax on gas distribution companies' sales of gas. Large commercial and industrial customers have been able to choose their suppliers since 1984. Currently, approximately one-third of the Company's total yearly throughput is supplied by third parties.

The Act permits gas distribution companies to continue to make regulated sales of gas to their customers. The Act does not deregulate the transportation service provided by gas distribution companies, which remains subject to rate regulation. Gas distribution companies will continue to provide billing, metering, installation, maintenance and emergency response services.

In compliance with the schedule ordered by the PUC on December 1, 1999, the Company filed with the PUC a restructuring plan for the implementation of gas deregulation and customer choice of gas service suppliers in its service territory effective July 1, 2000. The Company believes there will be no material impact on the financial condition or operations of the Company because of the PUC's existing requirement that gas distribution companies cannot collect more than the actual cost of gas from customers, and the Act's requirement that suppliers must accept assignment or release, at contract rates, the portion of the gas distribution company's firm interstate pipeline contracts required to serve the suppliers' customers.

Expansion of Generation Portfolio In 1998, the Company established specific goals to increase its generation capacity from 9 gigawatts to 25 gigawatts by 2003. The Company is developing a generation portfolio capable of taking advantage of periods of increased demand. In order to meet this strategic objective the Company may require significant capital resources.

In 1999, AmerGen purchased Clinton and Three Mile Island Unit No. 1 Nuclear Generating Facility (TMI) and entered into agreements to purchase Nine Mile Point Unit 1 Nuclear Generating Facility, a 59% undivided interest in Nine Mile Point Unit 2 Nuclear Generating Facility, Oyster Creek Nuclear Generating Facility and Vermont Yankee Nuclear Power Station. These purchases are expected to be completed in 2000 subject to federal and state approvals. The Company accounts for its investment in AmerGen under the equity method of accounting.

On September 30, 1999, the Company announced it has reached an agreement to purchase an additional 7.51% ownership interest in Peach Bottom Atomic Power Station (Peach Bottom) from Atlantic City Electric Company and Delmarva Power & Light Company bringing the Company's ownership interest to 50%. The sale is expected to be completed by mid-2000 subject to federal and state approvals. The Company consolidates its proportionate interest in Peach Bottom.

In 1999, the Company also entered into two long-term power purchase agreements with Independent Power Producers (IPP) under which the Company makes fixed capacity payments to the IPP in return for exclusive rights to the energy and capacity of the generating units for a fixed period.

Regulation and Operation of Nuclear Generating Facilities

The Company's financial condition and results of operations are in part dependent on the continued successful operation of its nuclear generating facilities. The Company's nuclear generating facilities represent 45% of its installed generating capacity. Because of the Company's reliance on its nuclear generating units, any changes in regulations by the NRC requiring additional investments or resulting in increased operating or decommissioning costs of nuclear generating units could adversely affect the Company.

During 1999, Company-operated nuclear plants operated at a 93% weighted-average capacity factor and Company-owned nuclear plants operated at a 92% weighted-average capacity factor. Company-owned nuclear plants produced 41% of the electricity generated by the Company. Nuclear generation is currently the most cost-effective way for the Company to meet customer needs and commitments for sales to other utilities.

In December 1999, AmerGen acquired Clinton and TMI marking the first acquisitions by the Company's joint venture. Accordingly, AmerGen's financial condition and results of operations are also dependent on the continued successful operation of its nuclear generating facilities. AmerGen's nuclear generating facilities represent 100% of its installed generating capacity. Because of AmerGen's reliance on its nuclear generating units, any changes in regulations by the NRC requiring additional investments or resulting in increased operating or decommissioning costs of nuclear generating units could adversely affect AmerGen and, accordingly, the Company's investment in AmerGen.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In conjunction with each of the completed acquisitions, AmerGen has received fully funded decommissioning trust funds which have sufficient assets to fully cover the anticipated costs to decommission each nuclear plant following its licensed life, including an annual net growth rate of 2% in accordance with NRC regulations. AmerGen believes that the amount of the trust funds and investment earnings thereon will be sufficient to meet its decommissioning obligations.

Combining the nuclear operations of the Company and Unicom will present significant challenges. The combined nuclear operations of Exelon will be significantly larger than either company's nuclear operations and will require the integration of nuclear operations among the Company and Unicom. Exelon's nuclear operation will be the largest in the United States in terms of size and geographic scope. Exelon will have to build on the successful nuclear management of the Company and Unicom to maintain and improve the safe and efficient operation of its nuclear generating plants.

Other Factors Annual and quarterly operating results can be significantly affected by weather. Since the Company's peak retail demand is in the summer months, temperature variations in summer months are generally more significant than variations during winter months.

Inflation affects the Company through increased operating costs and increased capital costs for utility plant. As a result of the rate caps imposed under the Final Restructuring Order and price pressures due to competition, the Company may not be able to pass the costs of inflation through to customers.

The Company's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company and of property contaminated by hazardous substances generated by the Company. The Company owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

The Company has identified 28 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. The Company is presently engaged in performing various levels of activities at these sites, including initial evaluation to determine the existence and nature of the contamination, detailed evaluation to determine the extent of the contamination and the necessity and possible methods of remediation, and implementation of remediation. The Pennsylvania Department of Environmental Protection has approved the Company's clean-up of three sites. Ten other sites are currently under some degree of active study and/or remediation.

As of December 31, 1999 and 1998, the Company had accrued $57 million and $60 million, respectively, for environmental investigation and remediation costs, including $32 million and $33 million, respectively, for MGP investigation and remediation that currently can be reasonably estimated. The Company expects to expend $7 million for environmental remediation activities in 2000. The Company cannot predict whether it will incur other significant liabilities for any additional investigation and remediation costs at these or additional sites identified by the Company, environmental agencies or others, or whether such costs will be recoverable from third parties.

For a discussion of other contingencies, see Note 6 of Notes to Consolidated Financial Statements.

New Accounting Pronouncements In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133) to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date for SFAS No. 133 until fiscal years beginning after June 15, 2000. The Company expects to adopt SFAS No. 133 in the first quarter of 2001. The Company is in the process of evaluating the impact of SFAS No. 133 on its financial statements.

Year 2000 Readiness Disclosure During 1999 and 1998, the Company successfully addressed, through its Year 2000 Project (Y2K Project), the issue resulting from computer programs using two digits rather than four to define the applicable year and other programming techniques that constrain date calculations or assign special meanings to certain dates.

The Y2K Project was divided into four main sections — Information Technology Systems (IT Systems), Embedded Technology (devices to control, monitor or assist the operation of equipment, machinery or plant), Supply Chain (third-party suppliers and customers) and Contingency Planning. The IT Systems section included both the conversion of applications software that was not Y2K-ready and the replacement of software when available from the supplier. The Supply Chain section included the process of identifying and prioritizing critical suppliers and communicating with them about their plans and progress in addressing the Y2K issue.

The current estimated total cost of the Y2K Project is $61 million, the majority of which is attributable to testing. This represents a $9 million reduction of the previously estimated cost of the Y2K Project. This estimate includes the Company's share of Y2K costs for jointly owned facilities. The total amount expended on the Y2K Project through December 31, 1999 was $56 million. The Company is funding the Y2K Project from operating cash flows.

The Company's systems experienced no Y2K difficulties on December 31, 1999 or since that date. The Company's operations have not, to date, been adversely affected by any Y2K difficulties that suppliers or customers may have experienced. The Company's Y2K Project also successfully addressed concerns with the date February 29, 2000. The Company will continue to monitor its systems for potential Y2K difficulties through the remainder of 2000.

Forward-Looking Statements Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements which are subject to risks and uncertainties. The factors that could cause actual results to differ materially include those discussed herein as well as those listed in Note 6 of Notes to Consolidated Financial Statements and other factors discussed in the Company's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Report.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of PECO Energy Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in common shareholders' equity and preferred stock present fairly, in all material respects, the financial position of PECO Energy Company and Subsidiary Companies at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

February 29, 2000, except for certain information included in Notes 2 and 4, for which the dates are March 24, 2000 and March 16, 2000, respectively.

CONSOLIDATED STATEMENTS OF INCOME

In Thousands, except per share data	1999	1998	1997
		For the Years Ended December 31,	
Operating Revenues			
Electric	$4,847,126	$4,829,639	$ 4,149,845
Gas	481,069	432,893	451,232
Infrastructure Services	108,558	—	—
Total Operating Revenues	5,436,753	5,262,532	4,601,077
Operating Expenses			
Fuel and Energy Interchange	2,145,175	1,795,887	1,290,164
Operating and Maintenance	1,383,885	1,134,579	1,414,596
Early Retirement and Separation Programs	—	124,200	—
Depreciation and Amortization	236,790	642,842	580,595
Taxes Other Than Income	261,732	279,515	310,091
Total Operating Expenses	4,027,582	3,977,023	3,595,446
Operating Income	1,409,171	1,285,509	1,005,631
Other Income and Deductions			
Interest Expense	(395,670)	(330,842)	(372,857)
Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company	(21,162)	(30,694)	(28,990)
Allowance for Funds Used During Construction	3,891	3,522	21,771
Settlement of Salem Litigation	—	—	69,800
Equity in Losses of Telecommunications Investments	(37,857)	(54,385)	(14,195)
Other, Net	18,611	(21,078)	(51,833)
Total Other Income and Deductions	(432,187)	(433,477)	(376,304)
Income Before Income Taxes and Extraordinary Item	976,984	852,032	629,327
Income Taxes	357,998	319,654	292,769
Income Before Extraordinary Item	618,986	532,378	336,558
Extraordinary Item (net of income taxes of $25,415, $13,757, and $1,290,961 for 1999, 1998, and 1997, respectively)	(36,572)	(19,654)	(1,833,664)
Net Income (Loss)	582,414	512,724	(1,497,106)
Preferred Stock Dividends	12,176	13,109	16,804
Earnings (Loss) Applicable to Common Stock	$ 570,238	$ 499,615	$(1,513,910)
Average Shares of Common Stock Outstanding	196,285	223,219	222,543
Earnings Per Average Common Share:			
Basic:			
Income Before Extraordinary Item	$ 3.10	$ 2.33	$ 1.44
Extraordinary Item	$ (0.19)	$ (0.09)	$ (8.24)
Net Income (Loss)	$ 2.91	$ 2.24	$ (6.80)
Diluted:			
Income Before Extraordinary Item	$ 3.08	$ 2.32	$ 1.44
Extraordinary Item	$ (0.19)	$ (0.09)	$ (8.24)
Net Income (Loss)	$ 2.89	$ 2.23	$ (6.80)
Dividends per Common Share	$ 1.00	$ 1.00	$ 1.80

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands	1999	For the Years Ended December 31, 1998	1997
Net Income (Loss)	**$ 582,414**	$ 512,724	$(1,497,106)
Adjustments to reconcile Net Income (Loss) to Net Cash provided by Operating Activities:			
Depreciation and Amortization	**358,027**	764,641	703,394
Extraordinary Item (net of income taxes)	**36,572**	19,654	1,833,664
Provision for Uncollectible Accounts	**59,418**	71,667	88,263
Deferred Income Taxes	**7,511**	(115,640)	(17,228)
Amortization of Investment Tax Credits	**(14,301)**	(18,066)	(18,201)
Early Retirement and Separation Charge	**—**	125,000	—
Deferred Energy Costs	**22,973**	5,818	(5,652)
Salem Litigation Settlement	**—**	—	69,800
Equity in Losses of Telecommunications Investments	**37,857**	54,385	14,195
Losses (Gains) on the Disposal of Assets, net	**37,832**	—	—
Other Items Affecting Operations	**(24,290)**	(8,627)	63,847
Changes in Working Capital:			
Accounts Receivable	**(159,475)**	2,576	(347,787)
Repurchase of Accounts Receivable	**(150,000)**	—	—
Inventories	**(43,390)**	14,192	28,628
Accounts Payable	**63,861**	8,971	93,881
Other Current Assets and Liabilities	**73,390**	54,263	58,539
Net Cash Flows provided by Operating Activities	**888,399**	1,491,558	1,068,237
Investment in Plant	**(491,097)**	(415,331)	(490,200)
Exelon Infrastructure Services Acquisitions	**(222,492)**	—	—
Investments in and Advances to Joint Ventures	**(117,615)**	(58,653)	(30,086)
Proceeds from the Sale of Investments	**12,226**	—	—
Increase in Other Investments	**(66,467)**	(46,742)	(83,261)
Net Cash Flows used in Investing Activities	**(885,445)**	(520,726)	(603,547)
Issuance of Long-Term Debt, net of issuance costs	**4,169,883**	13,486	161,813
Common Stock Repurchase	**(1,705,319)**	—	—
Retirement of Long-Term Debt	**(1,343,334)**	(841,755)	(283,303)
Change in Short-Term Debt	**(388,319)**	123,500	114,000
Redemption of COMRPS	**(221,250)**	(80,794)	—
Issuance of COMRPS	**—**	78,105	50,000
Dividends on Preferred and Common Stock	**(208,059)**	(236,307)	(417,383)
Capital Lease Payments	**(138,998)**	(59,923)	(39,100)
Termination of Interest Rate Swap Agreements	**79,969**	—	—
Prepayment Premiums	**(48,307)**	(27,250)	—
Preferred Stock Redemptions	**(37,091)**	—	(61,895)
Proceeds from Exercise of Stock Options	**13,951**	50,700	117
Loss on Reacquired Debt	**6,454**	6,753	22,752
Other Items Affecting Financing	**(2,420)**	17,332	(7,522)
Net Cash Flows provided by (used in) Financing Activities	**177,160**	(956,153)	(460,521)
	180,114	14,679	4,169
Cash and Cash Equivalents at beginning of period	**48,083**	33,404	29,235
Cash and Cash Equivalents at end of period	**$ 228,197**	$ 48,083	$ 33,404

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

In Thousands	At December 31, 1999	1998
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 228,197**	$ 48,083
Accounts Receivable, net		
Customer	**396,453**	181,210
Other	**295,011**	129,546
Inventories		
Fossil Fuel	**112,739**	92,288
Materials and Supplies	**93,077**	82,068
Deferred Energy Costs – Gas	**6,874**	29,847
Other	**80,264**	19,013
Total Current Assets	**1,212,615**	582,055
Property, Plant and Equipment, net	**5,045,008**	4,804,469
Deferred Debits and Other Assets		
Competitive Transition Charge	**5,274,624**	5,274,624
Recoverable Deferred Income Taxes	**638,060**	614,445
Deferred Non-Pension Postretirement Benefits Costs	**84,421**	90,915
Investments	**538,231**	497,648
Loss on Reacquired Debt	**70,711**	77,165
Goodwill, net	**120,500**	—
Other	**135,339**	107,042
Total Deferred Debits and Other Assets	**6,861,886**	6,661,839
Total Assets	**$13,119,509**	$12,048,363

See Notes to Consolidated Financial Statements

In Thousands	1999	At December 31, 1998
Notes Payable, Bank	**$ 163,193**	$ 525,000
Long-Term Debt Due Within One Year	**127,762**	361,523
Capital Lease Obligations Due Within One Year	**13**	69,011
Accounts Payable	**429,492**	316,292
Taxes Accrued	**203,011**	170,495
Interest Accrued	**119,200**	61,515
Deferred Income Taxes	**14,584**	14,168
Other	**246,816**	217,416
Total Current Liabilities	**1,304,071**	1,735,420
	5,968,658	2,919,592
Capital Lease Obligations	**455**	85,297
Deferred Income Taxes	**2,410,769**	2,376,792
Unamortized Investment Tax Credits	**285,698**	299,999
Pension Obligations	**212,198**	219,274
Non-Pension Postretirement Benefits Obligation	**442,780**	421,083
Other	**400,686**	354,037
Total Deferred Credits and Other Liabilities	**3,752,586**	3,756,482
	128,105	349,355
	55,609	92,700
Common Stock	**3,575,514**	3,557,035
Preferred Stock	**137,472**	137,472
Other Paid-In Capital	**1,236**	1,236
Accumulated Deficit	**(102,742)**	(500,929)
Treasury Stock, at cost	**(1,705,015)**	—
Accumulated Other Comprehensive Income	**4,015**	—
Total Shareholders' Equity	**1,910,480**	3,194,814
	$13,119,509	$12,048,363

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY AND PREFERRED STOCK

All Amounts in Thousands	Common Stock Shares	Common Stock Amount	Other Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income	Comprehensive Income	Preferred Stock Shares	Preferred Stock Amount
Balance at January 1, 1997	222,542	$3,506,003	$1,326	$ 1,138,652	—	$ —	$ —		2,921	$292,067
Net Loss				(1,497,106)				$(1,497,106)		
Other Comprehensive Income								—		
Comprehensive Income								(1,497,106)		
Cash Dividends Declared:										
Preferred Stock (at specified annual rates)				(16,804)						
Common Stock ($1.80 per share)				(400,579)						
Capital Stock Activity:										
Expenses of Capital Stock Activity				98						
Stock Repurchase Forward Contract				(4,889)						
Long-Term Incentive Plan Issuances	5	117								
Preferred Stock Redemptions			(87)						(619)	(61,895)
Balance at December 31, 1997	222,547	3,506,120	1,239	(780,628)	—	—	—		2,302	230,172
Net Income				512,724				512,724		
Other Comprehensive Income								—		
Comprehensive Income								512,724		
Cash Dividends Declared:										
Preferred Stock (at specified annual rates)				(13,109)						
Common Stock ($1.00 per share)				(223,198)						
Capital Stock Activity:										
Expenses of Capital Stock Activity				2,731						
Stock Repurchase Forward Contract				(7,677)						
Long-Term Incentive Plan Issuances	2,137	50,915	(3)	8,228						
Balance at December 31, 1998	224,684	3,557,035	1,236	(500,929)	—	—	—		2,302	230,172
Net Income				**582,414**				**582,414**		
Other Comprehensive Income:										
Unrealized Gain on Securities, net of $2,757 tax							**4,015**	**4,015**		
Comprehensive Income								**$ 586,429**		
Cash Dividends Declared:										
Preferred Stock (at specified annual rates)				**(12,176)**						
Common Stock ($1.00 per share)				**(195,883)**						
Capital Stock Activity:										
Stock Repurchase Forward Contract Settlement				**12,118**	**21,489**	**(695,934)**				
Repurchase of Common Stock					**22,610**	**(1,009,385)**				
Long-Term Incentive Plan Issuances	**670**	**18,479**	**—**	**11,714**	**(17)**	**304**				
Preferred Stock Redemptions									**(371)**	**(37,091)**
Balance at December 31, 1999	**225,354**	**$3,575,514**	**$1,236**	**$ (102,742)**	**44,082**	**$(1,705,015)**	**$4,015**		**1,931**	**$193,081**

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Description of Business Incorporated in Pennsylvania in 1929, PECO Energy Company (Company) is engaged principally in the production, purchase, transmission, distribution and sale of electricity to residential, commercial, industrial and wholesale customers and the distribution and sale of natural gas to residential, commercial and industrial customers. Pursuant to the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act), the Commonwealth of Pennsylvania has required the unbundling of retail electric services in Pennsylvania into separate generation, transmission and distribution services with open retail competition for generation services. Since the commencement of deregulation in 1999, the Company serves as the local distribution company providing electric distribution services in its franchised service territory in southeastern Pennsylvania and bundled electric service to customers who do not choose an alternate electric generation supplier. The Company also engages in the wholesale marketing of electricity on a national basis. Through its Exelon Energy division, the Company is a competitive generation supplier offering competitive energy supply to customers throughout Pennsylvania. The Company's infrastructure services subsidiary, Exelon Infrastructure Services, Inc. (EIS), provides utility infrastructure services to customers in several regions of the United States. The Company owns a 50% interest in AmerGen Energy Company, LLC (AmerGen), a joint venture with British Energy, Inc., a wholly-owned subsidiary of British Energy plc, to acquire and operate nuclear generating facilities. The Company also participates in joint ventures which provide telecommunications services in the Philadelphia metropolitan region.

Basis of Presentation The consolidated financial statements of the Company include the accounts of its majority-owned subsidiaries after the elimination of its intercompany transactions. The Company accounts for investments in its 50% owned joint ventures under the equity method of accounting. The Company consolidates its proportionate interest in its jointly owned electric utility plants. The Company accounts for its less than 20% owned investments under the cost method of accounting. Accounting policies for regulated operations are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC).

Accounting for the Effects of Regulation The Company accounts for all of its regulated electric and gas operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," requiring the Company to record the financial statement effects of the rate regulation to which such operations are currently subject. Use of SFAS No. 71 is applicable to the utility operations of the Company which meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. The Company believes that it is probable that regulatory assets associated with these operations will be recovered. If a separable portion of the Company's business no longer meets the provisions of SFAS No. 71, the Company is required to eliminate the financial statement effects of regulation for that portion. Effective December 31, 1997, the Company determined that the electric generation portion of its business no longer met the criteria of SFAS No. 71 and, accordingly, implemented SFAS No. 101, "Regulated Enterprises – Accounting for the Discontinuation of FASB Statement No. 71," for that portion of its business. See Note 5 – Restructuring Charge.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues Electric and gas revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, the Company accrues an estimate for the unbilled amount of energy delivered or services provided to its electric and gas customers. The Company recognizes contract revenue and profits on long-term contracts from its infrastructure services business by the percentage-of-completion method of accounting based on costs incurred as a percentage of estimated total costs of individual contracts.

Purchased Gas Adjustment Clause The Company's gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective quarterly adjustments to rates.

Nuclear Fuel The cost of nuclear fuel is capitalized and charged to fuel expense on the unit of production method. Estimated costs of nuclear fuel disposal are charged to fuel expense as the related fuel is consumed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nuclear Outage Costs Incremental nuclear maintenance and refueling outage costs are accrued over the unit operating cycle. For each unit, an accrual for incremental nuclear maintenance and refueling outage expense is estimated based upon the latest planned outage schedule and estimated costs for the outage. Differences between the accrued and actual expense for the outage are recorded when such differences are known.

Depreciation, Amortization and Decommissioning Depreciation is provided over the estimated service lives of property, plant, and equipment on a straight line basis. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average service life for each asset category are presented in the table below:

Asset Category	1999	1998	1997
Electric – Transmission and Distribution	**1.83%**	1.96%	1.88%
Electric – Generation	**5.12%**	5.26%	3.90%
Gas	**2.36%**	2.40%	2.33%
Common	**2.13%**	4.54%	3.94%
Other Property and Equipment	**8.61%**	2.80%	1.97%

Amortization of regulatory assets is provided over the recovery period as specified in the related regulatory agreement. Goodwill related to the EIS acquisitions in 1999 is being amortized over 20 years.

The Company's current estimate of the costs for decommissioning its ownership share of its nuclear generating stations is currently included in regulated rates and is charged to operations over the expected service life of the related plant. The amounts recovered from customers are deposited in trust accounts and invested for funding of future costs. The Company accounts for its investments in decommissioning trust funds by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation for the current period's cost of decommissioning. Unrealized gains and losses are reflected as regulatory liabilities and assets, respectively. The Company believes that the amounts being recovered from customers through electric rates will be sufficient to fully fund the unrecorded portion of its decommissioning obligation.

Capitalized Interest Effective January 1, 1998, the Company ceased accruing Allowance for Funds Used During Construction (AFUDC) for electric generation-related construction projects and began using SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its electric generation-related construction projects. The Company recorded capitalized interest of $6 million and $7 million in 1999 and 1998, respectively.

AFUDC is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded as a charge to Construction Work in Progress and as a credit to AFUDC included in Other Income and Deductions. The rates used for capitalizing AFUDC, which averaged 6.25% in 1999, 8.63% in 1998 and 8.88% in 1997, are computed under a method prescribed by regulatory authorities. AFUDC is not included in regular taxable income and the depreciation of capitalized AFUDC is not tax deductible.

Income Taxes Deferred federal and state income taxes are provided on all significant timing differences between book bases and tax bases of assets and liabilities, transactions that reflect taxable income in a year different from book income and tax carryforwards. Investment tax credits previously used for income tax purposes have been deferred on the Consolidated Balance Sheets and are recognized in book income over the life of the related property. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each of the Company's subsidiaries within the consolidated group based on the separate return method.

Gains and Losses on Reacquired Debt Effective January 1, 1998, gains and losses on reacquired debt are being recognized in the Company's Consolidated Statements of Income as incurred. Gains and losses on reacquired debt related to regulated operations incurred prior to January 1, 1998, have been deferred and are being amortized to interest expense over the period approved for ratemaking purposes based on management's assessment of the likelihood of recovery.

Comprehensive Income Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive income is reflected in the Consolidated Statements of Changes in Common Shareholders' Equity and Preferred Stock.

Cash and Cash Equivalents The Company considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Marketable Securities Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The Company has no held-to-maturity or trading securities.

Inventories Inventories are carried at the lower of average cost or market.

Derivative Financial Instruments Hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge, with respect to the hedged item. If a derivative instrument ceased to meet the criteria for deferral, any gains or losses are recognized in income. The Company does not hold or issue derivative financial instruments for trading purposes.

Property, Plant and Equipment Property, plant and equipment is recorded at cost. The Company evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value.

Capitalized Software Costs Costs incurred during the application development stage of software projects for software which is developed or obtained for internal use are capitalized. At December 31, 1999 and 1998, capitalized software costs totaled $105 million and $84 million, respectively, net of $32 million and $37 million accumulated amortization, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed ten years.

Retail and Wholesale Energy Commitments The Company's retail and wholesale activities include short-term and long-term commitments, which are carried at the lower of cost or market, to purchase and sell energy and energy-related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. As such, revenue and expense associated with energy commitments is reported at the time the underlying physical transaction closes.

New Accounting Pronouncements In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date for SFAS No. 133 until fiscal years beginning after June 15, 2000. The Company expects to adopt SFAS No. 133 in the first quarter of 2001. The Company is in the process of evaluating the impact of SFAS No. 133 on its financial statements.

Reclassifications Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or shareholders' equity.

[illegible]

On September 22, 1999, the Company and Unicom Corporation (Unicom) entered into an Agreement and Plan of Exchange and Merger providing for a merger of equals. On January 7, 2000, the Agreement and Plan of Exchange and Merger was amended and restated (Merger Agreement). The Merger Agreement has been approved by both companies' Boards of Directors. The transaction will be accounted for as a purchase with the Company as acquiror.

The Merger Agreement provides for (a) the exchange of each share of outstanding common stock, no par value, of the Company for one share of common stock of the new company, Exelon Corporation (Exelon) (Share Exchange) and (b) the merger of Unicom with and into Exelon (Merger and together with the Share Exchange, Merger Transaction). In the Merger, each share of the outstanding common stock, no par value, of Unicom will be converted into 0.875 shares of common stock of Exelon plus $3.00 in cash. In the Merger Agreement, the Company and Unicom agree to repurchase approximately $1.5 billion of common stock prior to the closing of the Merger with Unicom to repurchase approximately $1.0 billion of its common stock, and the Company to repurchase approximately $500 million of its common stock. As a result of the Share Exchange, the Company will become a wholly owned subsidiary of Exelon. As a result of the Merger, Unicom will cease to exist and its subsidiaries, including Commonwealth Edison Company, an Illinois corporation (ComEd), will become subsidiaries of Exelon. Following the Merger Transaction, Exelon will be a holding company with two principal utility subsidiaries, ComEd and the Company.

The Merger Transaction is conditioned, among other things, upon the approvals of the common shareholders of both companies and the approval of certain regulatory agencies. The companies have filed an application with the Securities and Exchange Commission (SEC) to register Exelon as a holding company under the Public Utility Holding Company Act of 1935.

On March 24, 2000, the Company submitted for approval a joint petition for settlement reached with various parties to the Company's proceeding before the PUC involving the proposed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger with Unicom. The Company reached agreement with advocates for residential, small business and large industrial customers, and representatives of marketers, environmentalists, municipalities and elected officials. Under the comprehensive settlement agreement, the Company has agreed to $200 million in rate reductions for all customers over the period January 1, 2002 through 2005 and extended rate caps on the Company's retail electric distribution charges through December 31, 2006, electric reliability and customer service standards, mechanisms to enhance competition and customer choice, expanded assistance to low-income customers, extensive funding for wind and solar energy and community education, nuclear safety research funds, customer protection against nuclear costs outside of Pennsylvania, and maintenance of charitable and civic contributions and employment for the Company's headquarters in Philadelphia.

3. Segment Information

The Company evaluates the performance of its business segments based on Earnings Before Interest Expense and Income Taxes (EBIT). The Company's general corporate expenses and certain non-recurring expenses are excluded from the internal evaluation of reportable segment performance. General corporate expenses include the cost of executive management, corporate accounting and finance, information technology, risk management, human resources and legal functions and employee benefits.

The Company's distribution business unit consists of its regulated operations including electric transmission and distribution services, retail sales of generation services and retail gas sales and services. The Company's generation business unit consists of its generation assets, its power marketing group, its unregulated retail energy supplier and its investment in AmerGen. The Company's ventures business unit consists of its infrastructure services business, its telecommunications equity investments and other investments.

An analysis and reconciliation of the Company's business segment information to the respective information in the consolidated financial statements are as follows (in thousands):

	Distribution	Generation	Ventures	Corporate	Intersegment Revenues	Consolidated
Revenues:						
1999	**$ 3,256,718**	**$2,868,835**	**$ 110,056**	**$ —**	**$ (798,856)**	**$ 5,436,753**
1998	$ 3,778,264	$2,492,886	$ —	$ —	$(1,008,618)	$ 5,262,532
1997	$ 3,831,453	$1,721,417	$ —	$ —	$ (951,793)	$ 4,601,077
EBIT:						
1999	**$ 1,381,686**	**$ 238,825**	**$ (41,098)**	**$(189,488)**	**$ —**	**$ 1,389,925**
1998	$ 1,372,875	$ 233,339	$(138,605)	$(257,563)	$ —	$ 1,210,046
1997	$ 1,754,385	$ (380,985)	$ (81,948)	$(282,049)	$ —	$ 1,009,403
Depreciation and Amortization:						
1999	**$ 107,686**	**$ 125,154**	**$ 3,950**	**$ —**	**$ —**	**$ 236,790**
1998	$ 532,602	$ 110,224	$ 16	$ —	$ —	$ 642,842
1997	$ 100,988	$ 479,301	$ 306	$ —	$ —	$ 580,595
Capital Expenditures:						
1999	**$ 204,404**	**$ 244,916**	**$ 1,408**	**$ 40,369**	**$ —**	**$ 491,097**
1998	$ 174,974	$ 205,081	$ 6,271	$ 29,005	$ —	$ 415,331
1997	$ 219,776	$ 210,579	$ 6,393	$ 53,452	$ —	$ 490,200
Total Assets:						
1999	**$10,293,379**	**$1,779,103**	**$ 640,375**	**$ 406,652**	**$ —**	**$13,119,509**
1998	$ 9,759,174	$1,686,771	$ 216,870	$ 385,548	$ —	$12,048,363
1997	$10,008,820	$1,729,920	$ 222,418	$ 395,410	$ —	$12,356,568

Equity in losses of telecommunications investments of $38 million, $54 million, and $14 million for 1999, 1998, and 1997, respectively, are included in the ventures business unit's EBIT.

On May 14, 1998, the PUC issued a final order (Final Restructuring Order) approving a Joint Petition for Settlement filed by the Company and numerous parties to the Company's restructuring proceeding mandated by the Competition Act. The Competition Act provides for the restructuring of the electric utility industry in Pennsylvania, including the deregulation of generation operations and the institution of retail competition for generation services beginning in 1999. The Final Restructuring Order provided for the recovery of $5.3 billion of stranded costs through transition charges to distribution customers over a 12-year period beginning in 1999 with a 10.75% return on the balance. During the 12-year stranded cost recovery period, the Company is amortizing the recoverable stranded costs in accordance with the rate schedules determined in the Final Restructuring Order.

The Final Restructuring Order provided for the phase-in of customer choice of electric generation supplier (EGS) for all customers: one-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remaining one-third on January 1, 2000. The Final Restructuring Order also established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a Company affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including 20% of residential customers assigned to an EGS as a PLR default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process.

Effective January 1, 1999, electric rates were unbundled into transmission and distribution components, a Competitive Transition Charge (CTC) for recovery of stranded costs and an energy and capacity charge. Eligible customers who choose an alternative EGS are not charged the energy and capacity charge or the transmission charge and instead purchase their electric energy supply and transmission at market-based rates from their EGS. The Company is in turn reimbursed by the EGS, via the PJM Interconnection, L.L.C., for the cost of the transmission service at a rate approximately equivalent to the unbundled transmission rate. Also effective January 1, 1999, the Company unbundled its retail electric rates for metering, meter reading and billing and collection services to provide credits to those customers who elect to have an alternative supplier perform these services.

In accordance with the Competition Act and the Final Restructuring Order, the Company's retail electric rates are capped at the year-end 1996 levels (system-wide average of 9.96 cents/kilowatt hour [kWh]) through June 2005. The Final Restructuring Order required the Company to reduce its retail electric rates by 8% from the 1996 system-wide average rate on January 1, 1999. This rate reduction decreased to 6% on January 1, 2000 until January 1, 2001, when the system-wide average rate cap will revert to 9.96 cents/kWh. The transmission and distribution rate component will remain capped at a system-wide average rate of 2.98 cents/kWh through June 30, 2005. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, will remain in effect through 2010.

The Final Restructuring Order requires that on January 1, 2001, 20% of all of the Company's residential customers, determined by random selection and without regard to whether such customers are obtaining generation service from an alternate EGS, shall be assigned to a provider of last resort default supplier other than the Company through a PUC-approved bidding process.

The Final Restructuring Order authorized the issuance of up to $4 billion of transition bonds (Transition Bonds). In preparation for the issuance of Transition Bonds, the Company formed the PECO Energy Transition Trust (PETT), an independent statutory business trust organized under the laws of Delaware and a wholly owned subsidiary of the Company. On March 25, 1999, PETT issued $4 billion of its Transition Bonds to securitize a portion of the Company's authorized stranded cost recovery. PETT used the $3.95 billion of proceeds from the issuance of Transition Bonds to purchase the Intangible Transition Property (ITP) from the Company. In accordance with the Competition Act, the Company utilized the proceeds from the securitization of a portion of its stranded cost recovery principally to reduce stranded costs including related capitalization. The Company utilized the net proceeds, and interest income earned on the net proceeds, to repurchase 44.1 million shares of Common Stock for an aggregate purchase price of $1,705 million and $150 million of accounts receivable; to retire: $811 million of First Mortgage Bonds, a $400 million term loan, $532 million of commercial paper, a $139 million capital lease obligation and $37 million of preferred stock; to redeem $221 million of COMRPS; and to pay $25 million of debt issuance costs. The Transition Bonds are obligations of PETT, secured by ITP. ITP represents the irrevocable

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right of the Company or its assignee to collect non-bypassable charges from customers to recover stranded costs.

On March 16, 2000, the PUC issued an order approving a Joint Petition for Full Settlement of PECO Energy Company's Application for Issuance of a Qualified Rate Order (QRO) authorizing the Company to securitize up to an additional $1 billion of its authorized recoverable stranded costs. In accordance with the terms of the Joint Petition for Full Settlement, when the QRO becomes final and non-appealable, the Company, through its distribution business unit, will provide its retail customers with rate reductions in the total amount of $60 million beginning on January 1, 2001. This rate reduction will be effective for calendar year 2001 only and will not be contingent upon the issuance of additional transition bonds pursuant to the QRO. The Company will use the proceeds from any additional securitization principally to reduce stranded costs and related capitalization.

5. Restructuring Charge

As required by SFAS No. 101, at December 31, 1997, the Company performed an impairment test of its electric generation assets pursuant to SFAS No. 121, on a plant-specific basis and determined that $6.1 billion of its $7.1 billion of electric generation assets would be impaired as of December 31, 1998. The Company estimated the fair value for each of its electric generating units by determining its estimated future operating cash inflows and outflows. Cash flows were determined based on projections of operating revenue, fuel costs, operating and maintenance costs including administrative and general costs, other taxes, nuclear decommissioning costs, capital expenditures, required life extension costs and income taxes. Each plant whose gross future operating cash flows did not exceed the net book value of the plant was determined to have failed the first impairment test and was subjected to a second impairment test. In the second impairment test, generation-related CTC of $3.3 billion, as provided by the PUC in the Final Restructuring Order, was allocated on a pro rata basis to the gross future operating cash flows of the plants determined to have failed the first test. For each plant that failed either impairment test, the Company wrote down the difference between the sum of the gross future operating cash flows and the net book value. Since the Company's retail electric rates continued to be cost-based through January 1, 1999, $333 million representing depreciation expense on electric generation-related assets in 1998 and $91 million representing amortization of other regulatory assets in 1998 were reclassified to a regulatory asset and were amortized in 1998.

At December 31, 1997, the Company had total electric generation-related stranded costs of $8.4 billion, representing $5.8 billion of net stranded electric generation plant and $2.6 billion of electric generation-related regulatory assets. The original PUC restructuring order, issued in December 1997, allowed the Company to recover $5.3 billion of its generation-related stranded costs from customers. This resulted in a net unrecoverable amount of $3.1 billion. Accordingly, the Company recorded an extraordinary charge at December 31, 1997 of $3.1 billion ($1.8 billion, net of taxes) of electric generation-related stranded costs that will not be recovered from customers. The Final Restructuring Order did not change the amount of allowable stranded costs.

A summary, as of December 31, 1997, of the electric generation-related stranded costs and the amount of such stranded costs written off by the Company is shown in the following table:

In Thousands	
Electric generation-related asset impairment determined pursuant to SFAS No. 121	
Net book value of electric generation-related assets before write-down	$ 7,115,155
December 31, 1998 market value of electric generation-related assets pursuant to SFAS No. 121	(990,376)
Expected 1998 change in net plant recognized for recovery until cost-based rates cease at December 31, 1998	(303,800)
Electric generation-related asset impairment	**5,820,979**
Electric generation-related regulatory assets	
Recoverable Deferred Income Taxes	1,762,946
Deferred Limerick Costs	321,420
Deferred Non-Pension Postretirement Benefits Other Than Pensions	120,899
Deferred Energy Costs – Electric	92,021
Loss on Reacquired Debt	177,183
Above-market component of a purchase power agreement	90,000
Preliminary survey and investigation charges	38,173
Deferred employee compensation absences	20,760
Customer education program	31,547
Other post-retirement employee benefit obligations	6,384
Feasibility studies cost	8,434
Regulatory asset recognized for recovery until cost-based rates cease at December 31, 1998	(91,497)
Total electric generation-related regulatory assets	**2,578,270**
Total electric generation-related stranded costs	**8,399,249**
Amounts approved for collection from customers (regulatory asset pursuant to EITF No. 97-4)	**(5,274,624)**
Total Extraordinary Item	**$ 3,124,625**

In 1994, the Company accelerated the recognition of $180 million of non-pension postretirement benefit transition obligation as a result of a voluntary workforce reduction program which resulted in significant reductions in eligibility for future benefits under the postretirement benefit plans. A corresponding regulatory asset was recorded because the Company was permitted to recover the curtailment costs through increased electric base rates. The $121 million of deferred non-pension postretirement benefits other than pensions included in the calculation of stranded costs represents the remaining balance of the generation portion of the regulatory asset.

Capital Commitments The Company estimates that it will spend approximately $927 million for capital expenditures and other investments in 2000. The Company has commitments to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2000. As of December 31, 1999, the Company expects to make $97 million of capital contributions, excluding nuclear fuel, if all of the acquisition agreements that AmerGen entered into in 1999 close in 2000. In addition, the Company and British Energy plc have each agreed to provide up to $55 million to AmerGen at any time for operating expenses. See Note 26 – AmerGen Energy Company, L.L.C.

Nuclear Insurance As of December 31, 1999, the Price-Anderson Act limited the liability of nuclear reactor owners to $9.5 billion for claims that could arise from a single incident. The limit is subject to change to account for the effects of inflation and changes in the number of licensed reactors. The Company carries the maximum available commercial insurance of $200 million and the remaining $9.3 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to $88 million per reactor per incident, payable at no more than $10 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims.

The Company carries property damage, decontamination and premature decommissioning insurance in the amount of its $2.75 billion proportionate share for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund which the Company is required by the Nuclear Regulatory Commission (NRC) to maintain to provide for decommissioning the facility. The Company is unable to predict the timing of the availability of insurance proceeds to the Company for the Company's bondholders, and the amount of such proceeds which would be available. Under the terms of the various insurance agreements, the Company could be assessed up to $32 million for losses incurred at any plant insured by the insurance companies. The Company is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on the Company's financial condition and results of operations.

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. The Company's maximum share of any assessment is $10 million per year.

Nuclear Decommissioning and Spent Fuel Storage The Company's current estimate of its nuclear facilities' decommissioning cost is $1.4 billion in 1998 dollars. Decommissioning costs are recoverable through regulated rates. Under rates in effect through December 31, 1999, the Company collected and expensed approximately $29 million in 1999 from customers which was accounted for as a component of depreciation expense and accumulated depreciation. At December 31, 1999 and 1998, $383 million and $336 million, respectively, were included in accumulated depreciation. In order to fund future decommissioning costs, at December 31, 1999 and 1998, the Company held $408 million and $380 million, respectively, in trust accounts which are included as Investments in the Company's Consolidated Balance Sheets and include both net unrealized and realized gains. Net unrealized gains of $45 million and $60 million, respectively, were recognized as a Deferred Credits in the Company's Consolidated Balance Sheets at December 31, 1999 and 1998, respectively. The Company recognized net realized gains of $14 million, $12 million, and $11 million as Other Income in the Company's Consolidated Statement of Income for the years ended December 31, 1999, 1998 and 1997, respectively. The Company believes that the amounts being recovered from customers through regulated rates will be sufficient to fully fund the unrecorded portion of its decommissioning obligation.

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Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is required to begin taking possession of all spent nuclear fuel generated by the Company's nuclear units for long-term storage by no later than 1998. Based on recent public pronouncements, it is not likely that a permanent disposal site will be available for the industry before 2010, at the earliest. In reaction to statements from the DOE that it was not legally obligated to begin to accept spent fuel in 1998, a group of utilities and state government agencies filed a lawsuit against the DOE which resulted in a decision by the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) in July 1996 that the DOE had an unequivocal obligation to begin to accept spent fuel in 1998. In accordance with the NWPA, the Company pays the DOE one mill ($.001) per kilowatthour of net nuclear generation for the cost of nuclear fuel long-term storage and disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. Because of inaction by the DOE following the D.C. Court of Appeals finding of the DOE's obligation to begin receiving spent fuel in 1998, a group of forty-two utility companies, including the Company, and forty-six state agencies, filed suit against the DOE seeking authorization to suspend further payments to the U.S. government under the NWPA and to deposit such payments into an escrow account until such time as the DOE takes effective action to meet its 1998 obligations. In November 1997, the D.C. Court of Appeals issued a decision in which it held that the DOE had not abided by its prior determination that the DOE has an unconditional obligation to begin disposal of spent nuclear fuel by January 31, 1998. The D.C. Court of Appeals also precluded the DOE from asserting that it was not required to begin receiving spent nuclear fuel because it had not yet prepared a permanent repository or an interim storage facility. The DOE and one of the utility companies filed Petitions for Reconsideration of the decision which were denied, as were petitions seeking U.S. Supreme Court review of the decision. In addition, the DOE is exploring other options to address delays in the waste acceptance schedule.

Peach Bottom Atomic Power Station (Peach Bottom) has on-site pools with capacity to store spent nuclear fuel discharged from the units through 2000 for Unit No. 2 and 2001 for Unit No. 3. Life-of-plant storage capacity will be provided by an on-site dry cask storage facility, the construction of which was essentially completed in 1999. The first use of this facility is scheduled for mid-2000. Limerick Generating Station (Limerick) has on-site facilities with capacity to store spent nuclear fuel to 2007. Salem Generating Station (Salem) has on-site facilities with spent-fuel storage capacity through 2012 for Unit No. 1 and 2016 for Unit No. 2.

Energy Commitments The Company's wholesale operations include the physical delivery and marketing of power obtained through Company-owned generation capacity, and long, intermediate and short-term contracts. The Company maintains a net positive supply of energy and capacity, through Company-owned generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. The Company has also contracted for access to additional generation through bilateral long-term power purchase agreements. These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature — similar to asset ownership. The Company enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. The Company has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The intent and business objective for the use of its capital assets and contracts is to provide the Company with physical power supply to enable it to deliver energy to meet customer needs. The Company does not use financial contracts in its wholesale marketing activities and as a matter of business practice does not "pair off" or net settle its contracts. All contracts result in the delivery and/or receipt of power.

The Company has entered into bilateral long-term contractual obligations for sales of energy to other load-serving entities including electric utilities, municipalities, electric cooperatives, and retail load aggregators. The Company also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. The Company provides delivery of its energy to these customers in and out of PJM through access to Company-owned transmission assets or rights for firm transmission.

The Company has entered into three long-term power purchase agreements with Independent Power Producers (IPP) under which the Company makes fixed capacity payments to the IPP in return for exclusive rights to the energy and capacity of the generating units for a fixed period. The terms of the long-term power purchase agreements enable the Company to supply the fuel and dispatch energy from the plants. The plants are currently being constructed and are scheduled to begin operations in 2000, 2001 and 2002, respectively. These agreements provide for access to capacity of up to 800 megawatts (MW), 1,700 MW and 2,500 MW in 2000, 2001 and 2002, respectively.

At December 31, 1999, the Company had long-term commitments, in megawatt hours (MWhs) and dollars, relating to the purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others as expressed in the tables below (in thousands):

	Power Only			
	Purchases		Sales	
	MWhs	Dollars	MWhs	Dollars
2000	8,389	$182,188	16,291	$ 499,966
2001	6,684	121,194	9,324	322,496
2002	6,684	128,119	6,309	232,898
2003	6,684	135,060	4,539	108,391
2004	4,928	113,277	3,246	74,501
Thereafter	2,936	82,500	6,396	152,521
Total		$762,338		$1,390,773

	Capacity Purchases in Dollars	Capacity Sales in Dollars	Transmission Rights in Dollars
2000	$ 44,723	$ 62,971	$ 99,817
2001	131,991	68,493	60,295
2002	142,153	58,190	30,326
2003	169,479	54,332	27,156
2004	153,676	41,459	19,811
Thereafter	1,355,200	66,714	19,811
Total	$1,997,222	$352,159	$ 257,216

In November 1997, the Company signed an agreement with the Massachusetts Health and Education Facilities Authority (HEFA) to provide power to HEFA's members and employees in anticipation of deregulation of the electricity industry in Massachusetts. In the third quarter of 1999, the Company determined that, based upon anticipated prices of energy in Massachusetts through the remaining life of the HEFA contract, it had incurred a loss of approximately $36 million.

On April 23, 1999, the Company and Grays Ferry Cogeneration Partnership (Grays Ferry) entered into a final settlement of litigation, subject to the resolution of certain issues. The settlement resulted in a restructuring of the power purchase agreements between the Company and Grays Ferry. The settlement also required the Company to contribute its partnership interest in Grays Ferry to the remaining partners. Accordingly, in the first quarter, the Company recorded a charge to earnings of $14.6 million for the transfer of its partnership interest. The charge for the partnership interest transfer is recorded in Other Income and Deductions on the Company's Consolidated Statements of Income. The settlement also resolved the litigation with Westinghouse Power Generation and the Chase Manhattan Bank.

During the third quarter of 1999, the Company revised its estimate for losses associated with the Grays Ferry power purchase agreements and reversed approximately $26 million of reserves, which consisted of the remaining balance of the reserve recognized in 1997.

Environmental Issues The Company's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company and of property contaminated by hazardous substances generated by the Company. The Company owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

The Company has identified 28 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. The Company is presently engaged in performing various levels of activities at these sites, including initial evaluation to determine the existence and nature of the contamination, detailed evaluation to determine the extent of the contamination and the necessity and possible methods of remediation, and implementation of remediation. The Pennsylvania Department of Environmental Protection has approved the Company's clean up of three sites. Ten other sites are currently under some degree of active study and/or remediation.

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As of December 31, 1999 and 1998, the Company had accrued $57 million and $60 million, respectively, for environmental investigation and remediation costs, including $32 million and $33 million, respectively, for MGP investigation and remediation, that currently can be reasonably estimated. The Company cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Company, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases Leased property included in property, plant and equipment was as follows:

In Thousands	At December 31, 1999	1998
Nuclear fuel	$ —	$ 523,325
Electric plant	2,321	2,321
Gross leased property	2,321	525,646
Accumulated amortization	(1,853)	(371,338)
Net leased property	$ 468	$ 154,308

Amortization of leased property totaled $17 million, $60 million, and $39 million for the years ended December 31, 1999, 1998, and 1997, respectively. Interest expense on capital lease obligations was $3 million, $9 million, and $9 million in 1999, 1998, and 1997, respectively.

Minimum future lease payments as of December 31, 1999 were:

For the Years Ending December 31,	Capital Leases	Operating Leases	Total
			In Thousands
2000	$ 92	$ 48,421	$ 48,513
2001	92	40,179	40,271
2002	92	34,531	34,623
2003	92	41,113	41,205
2004	92	29,720	29,812
Remaining years	629	487,663	488,292
Total minimum future lease payments	$1,089	$681,627	$682,716
Imputed interest (17%)	(621)		
Present value of net minimum future lease payments	$ 468		

Rental expense under operating leases totaled $54 million, $69 million and $74 million in 1999, 1998 and 1997, respectively.

In 1999, the Company entered into a lease for two buildings that will be the headquarters for its generation business unit. These buildings are being constructed in Kennett Square, Pennsylvania and are anticipated to be completed on or about June 1, 2000 and September 1, 2000, respectively. The lease terms are for 20 years with renewal options. Estimated lease payments for 2000 are $4 million.

Litigation

Cajun Electric Power Cooperative, Inc. On May 27, 1998, the United States Department of Justice, on behalf of the Rural Utilities Service and the Chapter 11 Trustee for the Cajun Electric Power Cooperative, Inc. (Cajun), filed an action claiming breach of contract against the Company in the United States District Court for the Middle District of Louisiana arising out of the Company's termination of the contract to purchase Cajun's interest in the River Bend nuclear power plant. This action seeks the full purchase price of the 30% interest in the River Bend nuclear plant, $50 million, plus interest and consequential damages. While the Company cannot predict the outcome of this matter, the Company believes that it validly exercised its right of termination and did not breach the agreement.

Pennsylvania Real Estate Tax Appeals The Company is involved in tax appeals regarding two of its nuclear facilities, Limerick (Montgomery County) and Peach Bottom (York County). The Company is also involved in the tax appeal for Three Mile Island Unit No. 1 Nuclear Generating Facility (Dauphin County) through AmerGen. The Company does not believe the outcome of these matters will have a material adverse effect on the Company's results of operations or financial condition.

General The Company is involved in various other litigation matters. The ultimate outcome of such matters, while uncertain, is not expected to have a material adverse effect on the Company's financial condition or results of operations.

7. Retirement Benefits

The Company and its subsidiaries have a defined benefit pension plan and postretirement benefit plans applicable to essentially all employees. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

	Pension Benefits		Other Postretirement Benefits	
In Thousands	**1999**	1998	**1999**	1998
Change in Benefit Obligation				
Net benefit obligation at beginning of year	**$ 2,309,586**	$2,141,040	**$ 847,771**	$ 779,231
Service cost	**28,780**	30,167	**18,756**	18,375
Interest cost	**153,740**	153,644	**57,518**	53,924
Plan participants' contributions	**—**	—	**419**	397
Plan amendments	**25,000**	—	**—**	—
Actuarial (gain)/loss	**(299,667)**	143,274	**(76,651)**	(8,260)
Curtailments	**—**	(73,330)	**—**	10,403
Settlements	**—**	(46,541)	**—**	—
Special termination benefits	**—**	114,182	**—**	29,712
Gross benefits paid	**(163,496)**	(152,850)	**(49,329)**	(36,011)
Net benefit obligation at end of year	**$ 2,053,943**	$2,309,586	**$ 798,484**	$ 847,771
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 2,745,347**	$2,538,039	**$ 223,285**	$ 178,045
Actual return on plan assets	**399,863**	343,754	**20,076**	23,535
Employer contributions	**495**	16,404	**50,047**	57,319
Plan participants' contributions	**—**	—	**419**	397
Gross benefits paid	**(163,496)**	(152,850)	**(49,329)**	(36,011)
Fair value of plan assets at end of year	**$ 2,982,209**	$2,745,347	**$ 244,498**	$ 223,285
Funded status at end of year	**$ 928,266**	$ 435,761	**$(553,986)**	$(624,486)
Unrecognized net actuarial (gain)/loss	**(1,129,187)**	(659,480)	**(42,738)**	37,617
Unrecognized prior service cost	**84,923**	65,419	**—**	—
Unrecognized net transition obligation (asset)	**(26,071)**	(30,512)	**153,944**	165,786
Net amount recognized at end of year	**$ (142,069)**	$ (188,812)	**$(442,780)**	$(421,083)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	**$ 70,129**	$ 30,462	**N/A**	N/A
Accrued benefit cost	**(212,198)**	(219,274)	**(442,780)**	(421,083)
Net amount recognized at end of year	**$ (142,069)**	$ (188,812)	**$(442,780)**	$(421,083)

	Pension Benefits			Other Postretirement Benefit		
	1999	1998	1997	**1999**	1998	1997
Weighted-average assumptions as of December 31,						
Discount rate	**8.00%**	7.00%	7.25%	**8.00%**	7.00%	7.25%
Expected return on plan assets	**9.50%**	9.50%	9.50%	**8.00%**	8.00%	8.00%
Rate of compensation increase	**5.00%**	5.00%	5.00%	**5.00%**	5.00%	5.00%
Health care cost trend on covered charges	**N/A**	N/A	N/A	**8.0% decreasing to ultimate trend of 5.0% in 2006**	6.5% decreasing to ultimate trend of 5.0% in 2002	7.0% decreasing to ultimate trend of 5.0% in 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Pension Benefits			Other Postretirement Benefit		
	1999	1998	1997	**1999**	1998	1997
Components of net periodic benefit cost (benefit)						
Service cost	**$ 28,780**	$ 30,167	$ 25,368	**$ 18,756**	$ 18,375	$14,401
Interest cost	**153,740**	153,644	150,057	**57,518**	53,924	54,149
Expected return on assets	**(222,166)**	(209,976)	(182,866)	**(16,372)**	(13,243)	(9,984)
Amortization of:						
Transition obligation (asset)	**(4,441)**	(4,538)	(4,538)	**11,842**	14,882	14,882
Prior service cost	**5,496**	6,441	6,441	**—**	—	—
Actuarial (gain)loss	**(7,657)**	(7,028)	(3,898)	**—**	—	—
Curtailment charge (credit)	**—**	(62,002)	—	**—**	52,961	—
Settlement charge (credit)	**—**	(13,439)	—	**—**	—	—
Net periodic benefit cost (benefit)	**$ (46,248)**	$(106,731)	$ (9,436)	**$ 71,744**	$126,899	$73,448
Special termination benefit charge	**$ —**	$ 114,182	$ —	**$ —**	$ 29,712	$ —

Sensitivity of retiree welfare results	
Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$ 11,240
on postretirement benefit obligation	$ 90,130
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	$ (9,150)
on postretirement benefit obligation	$(74,980)

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans.

During 1999, all retirees and beneficiaries who began receiving benefit payments prior to January 1, 1994 were granted a cost-of-living adjustment resulting in a $25 million increase in the projected benefit obligation. During 1998, costs were recognized for special termination benefits in connection with the retirement incentives and enhanced severance benefits provided under the Company's Workforce Reduction Program.

The Company provides certain health care and life insurance benefits for retired employees. Company employees become eligible for these benefits if they retire from the Company with ten years of service. These benefits and similar benefits for active employees are provided by several insurance companies whose premiums are based upon the benefits paid during the year.

The Company sponsors a qualifying savings plan covering all employees. Contributions made by participating employees are matched based on a specified percentage of employee contribution up to 5% of the employees' pay base. The cost of the Company's matching contribution to the savings plan totaled $7 million, $7 million and $3 million in 1999, 1998 and 1997, respectively.

8. Accounts Receivable

Accounts receivable–Customer at December 31, 1999 and 1998 included unbilled operating revenues of $153 million and $142 million, respectively. The allowance for uncollectible accounts at December 31, 1999 and 1998 was $112 million and $122 million, respectively.

Accounts receivable–Other at December 31, 1999 and 1998 included notes receivable from a telecommunications investment of $153 million and $89 million, respectively. The interest rate on the notes receivable was 5.66% and 4.28% at December 31, 1999 and 1998, respectively. Interest income related to the notes receivable was $6 million and $3 million in 1999 and 1998, respectively.

The Company is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $275 million of designated accounts receivable until November 2000. At December 31, 1999, the Company had sold a $275 million interest in accounts receivable, consisting of a $226 million interest in accounts receivable which the Company accounted for as a sale under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and a $49 million interest in special-agreement accounts receivable which were accounted for as a long-term note payable. See Note 14 – Long-Term Debt. The Company retains the servicing responsibility for these receivables. The agreement requires the Company to maintain the $275 million interest, which, if not met, requires the Company to deposit cash in order to satisfy such requirements. At December 31, 1999, the Company met this requirement and was not required to make a deposit. As of

December 31, 1999, the Company was not in compliance with one of the requirements of the agreement; however, a waiver has been obtained.

A summary of property, plant and equipment by classification as of December 31, 1999 and 1998 is as follows:

In Thousands	1999	1998
Electric – Transmission & Distribution	**$3,953,321**	$3,833,780
Electric – Generation	**1,941,881**	1,713,430
Gas	**1,175,598**	1,131,999
Common	**403,760**	407,320
Nuclear Fuel	**1,551,501**	932,156
Construction Work in Progress	**231,721**	272,590
Leased Property	**2,321**	525,646
Other Property, Plant and Equipment	**152,029**	44,520
Total Property, Plant and Equipment	**9,412,132**	8,861,441
Less Accumulated Depreciation (including accumulated amortization of nuclear fuel of $1,280,850 and $790,249 in 1999 and 1998, respectively)	**4,367,124**	4,056,972
Property, Plant and Equipment, net	**$5,045,008**	$4,804,469

Depreciation expense was $188 million, $182 million, and $489 million in 1999, 1998 and 1997, respectively.

At December 31, 1999 and 1998, common stock without par value consisted of 500,000,000 shares authorized and 181,271,692 and 224,684,306 shares outstanding, respectively. At December 31, 1999, there were 5,800,841 shares reserved for issuance under the Company's Dividend Reinvestment and Stock Purchase Plan.

Stock Repurchase During 1997, the Company's Board of Directors authorized the repurchase of up to 25 million shares of its common stock from time to time through open-market, privately negotiated and/or other types of transactions in conformity with the rules of the SEC. Pursuant to these authorizations, the Company entered into forward purchase agreements to be settled from time to time, at the Company's election, on a physical, net share or net cash basis. The Company utilized the proceeds from the securitization of a portion of its stranded cost recovery to physically settle these agreements in the first quarter of 1999, resulting in the purchase of 21.5 million shares of common stock for $696 million. In connection with the settlement of these agreements, the Company received $18 million in accumulated dividends on the repurchased shares and paid $6 million of interest.

In January 2000, in connection with the Merger Agreement, the Company entered into a forward purchase agreement to purchase $500 million of its common stock from time to time through open-market, privately negotiated and/or other types of transactions in conformity with the rules of the SEC. This forward purchase agreement can be settled from time to time, at the Company's election, on a physical, net share or net cash basis. The amount at which these agreements can be settled is dependent principally upon the market price of the Company's common stock as compared to the forward purchase price per share and the number of shares to be settled.

Stock Option Plans The Company maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees of the Company and a broad-based incentive program for all other employees. The types of long-term incentive awards which have been granted under the LTIP are non-qualified options to purchase shares of the Company's common stock and shares of restricted common stock. The types of long-term incentive awards which have been granted under the broad-based incentive program are non-qualified options to purchase shares of the Company's common stock. At December 31, 1999, there were 9,000,000 options authorized for issuance under the LTIP and 2,000,000 options authorized under the broad-based incentive program. The Company uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If the Company elected to account for its stock option plans based on SFAS No. 123, it would have recognized compensation expense of $10 million, $6 million and $2 million for 1999, 1998 and 1997, respectively. In addition, earnings applicable to common stock would have been $560 million, $494 million and $(1,516) million for 1999, 1998 and 1997, respectively, and earnings per average common share would have been $2.84, $2.20 and $(6.81) for 1999, 1998 and 1997, respectively.

The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of issue. Options granted under the LTIP and the broad-based incentive program become exercisable upon attainment of a target share value and/or time. All options expire 10 years from the date of grant. Information with respect to the LTIP and the broad-based

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incentive program at December 31, 1999 and changes for the three years then ended, is as follows:

	Shares 1999	Weighted Average Exercise Price (per share) 1999	Shares 1998	Weighted Average Exercise Price (per share) 1998	Shares 1997	Weighted Average Exercise Price (per share) 1997
Balance at January 1	**4,663,008**	**$27.71**	3,816,794	$26.14	2,961,194	$26.68
Options granted......	**2,049,789**	**39.32**	3,087,558	28.37	1,139,000	22.49
Options exercised	**(568,000)**	**25.17**	(2,130,744)	23.86	—	—
Options canceled.....	**(78,900)**	**38.14**	(110,600)	26.40	(283,400)	24.96
Balance at December 31..	**6,065,897**	**31.91**	4,663,008	28.65	3,816,794	26.14
Exercisable at December 31..	**3,331,903**	**25.60**	3,462,550	23.91	2,800,794	26.65
Weighted average fair value of options granted during year...		**$ 8.24**		$ 3.43		$ 2.97

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively:

	1999	1998	1997
Dividend yield	**5.7%**	6.8%	6.2%
Expected volatility	**30.5%**	21.4%	19.5%
Risk-free interest rate	**5.9%**	5.5%	6.4%
Expected life (years)...........	**9.5**	9.5	5

At December 31, 1999, the option groups outstanding, based on ranges of exercise prices, were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Weighted Average Remaining Contractual Number Outstanding	Weighted Average Life (years)	Exercise Price	Weighted Average Number Exercisable	Exercise Price
$15.75–$20.00	827,150	7.71	$19.61	827,150	$19.61
$20.01–$25.00	890,500	7.75	22.17	890,500	22.17
$25.01–$30.00	1,204,300	4.73	27.43	1,201,800	27.43
$30.01–$35.00	203,400	9.49	33.51	44,000	32.92
$35.01–$50.00	2,940,547	9.23	40.03	368,453	40.53
Total	6,065,897			3,331,903	

The Company issued 120,300 and 7,000 shares of restricted common stock during 1999 and 1998, respectively. Vesting for the restricted common stock awards is over a period not to exceed 10 years from the grant date. Compensation cost of $5 million and $0.2 million, respectively, associated with these awards is amortized to expense over the vesting period. The related accumulated amortization was approximately $2 million at December 31, 1999.

11. Earnings Per Share

Diluted earnings per average common share is calculated by dividing earnings applicable to common stock by the weighted average shares of common stock outstanding including stock options outstanding under the Company's stock option plans considered to be common stock equivalents. The following table shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per average common share (in thousands):

	1999	1998	1997
Average Common Shares Outstanding.......	**196,285**	223,219	222,543
Assumed Conversion of Stock Options	**1,331**	685	—
Potential Average Dilutive Common Shares Outstanding	**197,616**	223,904	222,543

12. Preferred and Preference Stock

At December 31, 1999 and 1998, Series Preference Stock, no par value, consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 1999 and 1998, cumulative Preferred Stock, no par value, consisted of 15,000,000 shares authorized and the amounts set forth below:

	Current Redemption Price (a)	Shares Outstanding At December 31, 1999	Shares Outstanding 1998	Amount in Thousands 1999	Amount in Thousands 1998
Series (without mandatory redemption)					
$4.68	$104.00	**150,000**	150,000	**$ 15,000**	$ 15,000
$4.40	112.50	**274,720**	274,720	**27,472**	27,472
$4.30	102.00	**150,000**	150,000	**15,000**	15,000
$3.80	106.00	**300,000**	300,000	**30,000**	30,000
$7.48	(b)	**500,000**	500,000	**50,000**	50,000
		1,374,720	1,374,720	**137,472**	137,472
Series (with mandatory redemption)					
$6.12	(c)	**556,200**	927,000	**55,609**	92,700
Total preferred stock		**1,930,920**	2,301,720	**$193,081**	$230,172

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.
(b) None of the shares of this series are subject to redemption prior to April 1, 2003.
(c) The Company exercised its right to double (to 370,800 shares, from the original 185,400 share requirement) the first annual sinking fund requirement for the $6.12 Series on August 2, 1999. Future annual sinking fund requirements in 2000 to 2002 are $18.5 million.

At December 31, 1999 and 1998, PECO Energy Capital, L.P. (Partnership), a Delaware limited partnership of which a wholly owned subsidiary of the Company is the sole general partner, had outstanding COMRPS as set forth in the following table:

			Trust Receipts Outstanding		Amount in Thousands	
	Mandatory Redemption	Distri-bution	At December 31,			
Series	Date	Rate	**1999**	1998	**1999**	1998
A (a) . . .	2043	9.00%	**—**	8,850,000	**$ —**	$221,250
C (b) . . .	2037	8.00%	**2,000,000**	2,000,000	**50,000**	50,000
D (c) . . .	2028	7.38%	**78,105**	78,105	**78,105**	78,105
Total . .			**2,078,105**	10,928,105	**$128,105**	$349,355

(a) On July 30, 1999, PECO Energy Capital Trust I redeemed all outstanding Trust Receipts, each representing a 9.00% Cumulative Monthly Income Preferred Security, Series A of PECO Energy Capital, L.P.
(b) Ownership of this series is evidenced by Trust Receipts, each representing an 8.00% COMRPS, Series C with a liquidation value of $25, representing limited partnership interests. The Trust Receipts were issued by PECO Energy Capital Trust II, the sole assets of which are 8.00% COMRPS, Series C. Each holder of Trust Receipts is entitled to withdraw the corresponding number of 8.00% COMRPS, Series C from the Trust in exchange for the Trust Receipts so held.
(c) Ownership of this series is evidenced by Trust Receipts, each representing a 7.38% COMRPS, Series D with a liquidation value of $1,000, representing limited partnership interests. The Trust Receipts were issued by PECO Energy Capital Trust III, the sole assets of which are 7.38% COMRPS, Series D. Each holder of Trust Receipts is entitled to withdraw the corresponding number of 7.38% COMRPS, Series D from the Trust in exchange for the Trust Receipts so held.

Each series is supported by the Company's deferrable interest subordinated debentures, held by the Partnership, which bear interest at rates equal to the distribution rates on the related series of COMRPS. The interest expense on the debentures is included in Other Income and Deductions in the Consolidated Statements of Income and is deductible for tax purposes.

PECO Energy Transition Trust – Series 1999-A Transition Bonds

		Expected Final Payment	Termi-nation	At December 31,	
Class	Rate	Date(a)	Date(a)	**1999**	1998
				In Thousands	
A-1	5.48%	2001	2003	**$ 201,970**	$ —
A-2	5.63%	2003	2005	**275,371**	—
A-3	6.06%(b)	2004	2006	**667,000**	—
A-4	5.80%	2005	2007	**458,519**	—
A-5	6.14%(b)	2007	2009	**464,600**	—
A-6	6.05%	2007	2009	**993,386**	—
A-7	6.13%	2008	2009	**896,654**	—
Unamortized debt discount				**(4,886)**	—
PECO Energy Transition Trust subtotal				**$3,952,614**	$ —

		At December 31,	
		1999	1998
	Due	In Thousands	
PECO Energy Transition Trust subtotal		**$3,952,614**	$ —
PECO Energy Company			
First and refunding mortgage bonds (c) . . .			
7½%–9¼%	1999	**—**	325,000
5⅝%–7⅜%	2001	**330,000**	330,000
7⅛%–8%	2002	**500,000**	500,000
6½%–6⅝%	2003	**450,000**	450,000
6⅜%–10¼% . . .	2005–2009	**107,500**	111,562
(d)	2010–2014	**154,200**	154,200
6⅝%–8¾%	2020–2024	**150,710**	1,082,130
Total first and refunding mortgage bonds		**1,692,410**	2,952,892
Notes payable.		**17,236**	15,930
Pollution control notes (e)		**369,125**	212,705
Medium-term notes (f) . .		**20,000**	50,000
Note Payable – accounts receivable agreement (g)		**49,381**	66,837
Unamortized debt discount and premium, net		**(4,897)**	(17,249)
PECO Energy Company subtotal		**2,143,255**	3,281.115
Other		**551**	—
Total long-term debt		**6,096,420**	3,281.115
Due within one year (h) . .		**127,762**	361.523
Long-Term debt		**$5,968,658**	$2,919.592

(a) The Expected Final Payment Date is the date when all principal and interest of the related class of Transition Bonds is expected to be paid in full in accordance with the expected amortization schedule for the applicable class. The Termination Date is the date when all principal and interest of the related class of Transition Bond must be paid in full. The current portion of Transition Bonds is based upon the expected maturity date.
(b) Floating rate, as of December 31, 1999, based upon the London Interbank Offering Rate (LIBOR) plus 0.125% for the A-3 class and LIBOR plus 0.20% for the A-5 class.
(c) Utility plant is subject to the lien of the Company's mortgage.
(d) Pollution control notes issued under the First and Refunding Mortgage. The average annual floating rate was 3.23% at December 31, 1999.
(e) Floating rates, which were an average annual interest rate of 4.03% at December 31, 1999.
(f) Medium-term notes collateralized by mortgage bonds. The average annual interest rate was 9.095% at December 31, 1999.
(g) Floating rate which was 6.06% at December 31, 1999.
(h) Long-term debt maturities, including mandatory sinking fund requirements, in the period 2000–2004 are as follows (in thousands): 2000 – $127.762; 2001 – $525.656; 2002 – $785.951; 2003 – $927.461; 2004 – $523.156 and $3.206.434 thereafter.

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In 1998, the Company entered into treasury forwards and forward starting interest rate swaps to manage interest rate exposure associated with the anticipated issuance of Transition Bonds. On March 18, 1999, these instruments were settled with net proceeds to the Company of approximately $80 million which were deferred and are being amortized over the life of the Transition Bonds as a reduction of interest expense consistent with the Company's hedge accounting policy. Through December 31, 1999, the Company has amortized approximately $9 million of the deferred gain.

In 1999, the Company incurred extraordinary charges aggregating $62 million ($37 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of $811 million of First Mortgage Bonds with a portion of the proceeds from the securitization of stranded cost recovery and the refinancing of $156 million of pollution control notes.

In 1998, the Company incurred extraordinary charges aggregating $33 million ($20 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of $525 million of First Mortgage Bonds.

15. Notes Payable, Banks

In Thousands	1999	1998	1997
Average borrowings	**$241,636**	$209,261	$248,111
Average interest rates, computed on daily basis	**5.62%**	5.83%	5.83%
Maximum borrowings outstanding	**$728,000**	$525,000	$464,500
Average interest rates, at December 31	**6.80%**	6.17%	6.74%

The Company paid off its $400 million one-year term loan on March 26, 1999 with the proceeds from the securitization of stranded costs.

The Company has a $900 million unsecured revolving credit facility with a group of banks. The credit facility consists of a $450 million 364-day credit agreement and a $450 million three-year credit agreement. The Company uses the credit facility principally to support its $600 million commercial paper program. There was no debt outstanding under this credit facility at December 31, 1999 or 1998. At December 31, 1999 and 1998, the amount of commercial paper outstanding was $142 million and $125 million, respectively. At December 31, 1999, the Company had $21 million outstanding on lines of credit. In addition, at December 31, 1999 and 1998, the Company had available formal and informal lines of credit with banks aggregating $100 million.

16. Income Taxes

Income tax expense (benefit) is comprised of the following components:

	For the Years Ended December 31,		
In Thousands	1999	1998	1997
Included in operations:			
Federal			
Current	**$293,093**	$ 358,051	$ 251,509
Deferred	**6,686**	(109,211)	(11,378)
Investment tax credit, net	**(14,301)**	(18,066)	(18,201)
State			
Current	**71,695**	95,309	76,689
Deferred	**825**	(6,429)	(5,850)
	$357,998	$ 319,654	$ 292,769
Included in extraordinary item:			
Federal			
Current	**(19,693)**	(10,583)	(123)
Deferred	—	—	(987,234)
State			
Current	**(5,722)**	(3,174)	(29)
Deferred	—	—	(303,575)
	(25,415)	(13,757)	(1,290,961)
Total	**$332,583**	$ 305,897	$ (998,192)

The total income tax provisions, excluding the extraordinary item, differed from amounts computed by applying the federal statutory tax rate to pre-tax income as follows:

In Thousands	1999	1998	1997
Income Before Extraordinary Item	**$618,986**	$532,378	$336,558
Total income tax provisions	**357,998**	319,654	292,769
Income Before Income Taxes and Extraordinary Item	**$976,984**	$852,032	$629,327
Income taxes on above at federal statutory rate of 35%	**$341,944**	$298,211	$220,264
Increase (decrease) due to:			
Property basis differences	**(7,926)**	(10,262)	40,828
State income taxes, net of federal income tax benefit	**46,704**	57,582	46,046
Amortization of investment tax credit	**(14,301)**	(18,066)	(18,201)
Prior period income taxes	**(7,153)**	(12,951)	(2,985)
Other, net	**(1,270)**	5,140	6,817
Total income tax provisions	**$357,998**	$319,654	$292,769
Effective income tax rate	**36.6%**	37.5%	46.5%

Provisions for deferred income taxes consist of the tax effects of the following temporary differences:

In Thousands	1999	1998	1997
Depreciation and amortization	**$ 23,067**	$ 140,448	$ 57,530
Deferred generation charges recoverable	—	(174,787)	—
Transition bond hedge	**(29,010)**	—	—
Deferred energy costs	**(9,341)**	(2,491)	2,256
Retirement and separation programs	**7,076**	(51,146)	(12,734)
Incremental nuclear outage costs	**3,610**	(7,434)	(981)
Uncollectible accounts	**10,676**	4,764	(1,710)
Reacquired debt	**(1,697)**	(5,026)	(8,607)
Unbilled revenue	**(2,802)**	3,579	(5,110)
Environmental clean-up costs	**3,507**	(3,574)	(15,121)
Obsolete inventory	**976**	4,206	(7,074)
Limerick plant disallowances and phase-in plan	—	—	(747)
AMT credits	—	(42,067)	—
Other nuclear operating costs	**(6)**	9,926	(9,892)
Other	**1,455**	7,962	(15,038)
Subtotal	**7,511**	(115,640)	(17,228)
Extraordinary item	**(25,415)**	(13,757)	(1,290,961)
Total	**$(17,904)**	$(129,397)	$(1,308,189)

The tax effect of temporary differences giving rise to the Company's net deferred tax liability as of December 31, 1999 and 1998 is as follows:

	Liability or (Asset)	
In Thousands	1999	1998
Nature of temporary difference:		
Plant basis difference	**$2,703,627**	$2,653,760
Deferred investment tax credit	**285,698**	299,999
Deferred debt refinancing costs	**36,923**	37,575
Deferred pension and post-retirement obligations	**(147,977)**	(157,166)
Other, net	**(167,220)**	(143,209)
Deferred income taxes (net) on the balance sheet	**$2,711,051**	$2,690,959

The net deferred tax liability shown above as of December 31, 1999 and 1998 was comprised of $3,140 million and $3,123 million of deferred tax liabilities, and $429 million and $432 million of deferred tax assets, respectively.

In accordance with SFAS No. 71, the Company recorded a recoverable deferred income tax asset of $638 million and $614 million at December 31, 1999 and 1998, respectively. These balances are applicable only to regulated assets, due to the discontinuance of SFAS No. 71 for the Company's electric generation operations. These recoverable deferred income taxes include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the ratemaking policies of the PUC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates.

The Internal Revenue Service (IRS) has completed and settled its examinations of the Company's federal income tax returns through 1993. The 1994 through 1996 federal income tax returns have been examined and the Company and the IRS are in the process of settling the audit which is not expected to have a material adverse impact on financial condition or results of operations of the Company.

	For the Years Ended December 31,		
In Thousands	1999	1998	1997
Gross receipts	**$155,115**	$155,663	$163,552
Capital stock	**4,473**	43,754	48,085
Real estate	**72,083**	51,313	69,597
Payroll	**27,867**	30,068	25,976
Other	**2,194**	(1,283)	2,881
Total	**$261,732**	$279,515	$310,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Jointly Owned Electric Utility Plant

The Company's ownership interests in jointly owned electric utility plant at December 31, 1999, were as follows:

	Production Plants				Transmission and Other Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
Operator	PECO Energy Company	Public Service Electric and Gas Company	Sithe Energy Inc.	Sithe Energy Inc.	Various Companies
Participating interest	42.49%	42.59%	20.99%	20.72%	21% to 43%
Company's share (In Thousands):					
Utility plant	$387,869	$17,739	$119,920	$192,555	$83,806
Accumulated depreciation	197,827	11,986	83,933	92,047	33,848
Construction work in progress	23,936	2,163	1,967	5,646	2,794

The Company's participating interests are financed with Company funds and, when placed in service, all operations are accounted for as if such participating interests were wholly owned facilities.

On September 30, 1999, the Company reached an agreement to purchase an additional 7.51% ownership interest in Peach Bottom from certain operating subsidiaries of Atlantic City Electric Company and Delmarva Power & Light Company for $17.5 million. The sale is expected to be completed by mid-2000, subject to federal and state approvals.

19. Supplemental Cash Flow Information

The following disclosures supplement the accompanying Consolidated Statements of Cash Flows:

In Thousands	**1999**	1998	1997
Cash paid during the year:			
Interest (net of amount capitalized)	**$349,522**	$384,932	$405,838
Income taxes (net of refunds)	**304,473**	346,539	345,232
Noncash investing and financing:			
Capital lease obligations incurred	—	38,307	32,909
Issuance of Exelon Infrastructure Services stock	**11,000**	—	—

20. Investments

In Thousands	At December 31, **1999**	1998
Trust accounts for decommissioning nuclear plants	**$408,450**	$379,938
Telecommunications ventures	**23,349**	48,391
Investment in AmerGen	**39,624**	—
Energy services and other ventures	**58,108**	69,319
Marketable securities	**8,700**	—
Total	**$538,231**	$497,648

21. Financial Instruments

Fair values of financial instruments, including liabilities, are estimated based on quoted market prices for the same or similar issues. The carrying amounts and fair values of the Company's financial instruments as of December 31, 1999 and 1998 were as follows:

	1999		1998	
In Thousands	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Non-derivatives:				
Assets				
Cash and cash equivalents	**$ 228,197**	**$ 228,197**	$ 48,083	$ 48,083
Trust accounts for decommissioning nuclear plants	**408,450**	**408,450**	379,938	379,938
Marketable securities	**8,700**	**8,700**	—	—
Liabilities				
Long-term debt (including amounts due within one year)	**6,096,420**	**5,821,697**	3,281,115	3,404,250
Derivatives:				
Treasury forwards	—	—	—	(300)
Interest rate swaps	—	**35,800**	—	—
Forward interest rate swaps	—	**66,100**	—	(4,400)

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. The Company places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the

Federal Deposit Insurance Corporation limit. Concentrations of credit risk with respect to customer accounts receivable are limited due to the Company's large number of customers and their dispersion across many industries.

The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for all of the Company's derivatives.

The Company has entered into interest rate swaps relating to its two variable rate series of Transition Bonds in the aggregate notional amount of $1.1 billion with an average interest rate of 6.65%. The Company has also entered into forward starting interest rate swaps relating to its two variable rate series of Transition Bonds in the aggregate notional amount of $1.1 billion with an average interest rate of 6.01%. The notional amount of derivatives do not represent amounts that are exchanged by the parties and, thus, are not a measure of the Company's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates.

The Company would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The Company does not expect that counterparties to the interest rate swaps will fail to meet these obligations, given their high credit ratings. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. The Company's interest rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached.

In April 1998, the Board of Directors authorized the implementation of a retirement incentive program and an enhanced severance benefit program. The retirement incentive program allowed employees age 50 and older, who have been designated as excess or who are in job classifications facing reduction, to retire from the Company. The enhanced severance benefit program provided non-retiring excess employees with fewer than ten years of service benefits equal to two weeks pay per year of service. Non-retiring excess employees with more than ten years of service received benefits equal to three weeks pay per year of service.

Through its Cost Competitiveness Review, the Company identified 1,157 employees across the Company who were considered excess or were in job classifications facing reduction. Of the 1,157 employees, 711 were eligible for and agreed to take the retirement incentive program. The remaining employees are eligible for the enhanced severance benefit program. As of December 31, 1999, 494 employees were eligible for and have taken the retirement incentive program and 433 employees were terminated with the enhanced severance benefit program. The remaining employees are scheduled for termination through the end of June 2000.

At December 31, 1998, the Company incurred a charge of $125 million ($74 million, net of income taxes) for its Early Retirement and Separation Program relating to 1,157 employees. This charge consisted of the following: $121 million for the actuarially determined pension and other postretirement benefits costs and $4 million for outplacement services costs and the continuation of benefits for one year. Approximately $0.8 million of the $125 million charge was related to the Company's non-utility operations and accordingly was recorded in Other Income and Deductions. The estimated cost of separation benefits was approximately $47 million, of which $28 million was paid through December 31, 1999. The remaining balance of $19 million is expected to be paid by June 2000. Retirement benefits of approximately $78 million are being paid to the retirees over their lives. All cash payments related to the early retirement and severance program are expected to be funded through the assets of the Company's Service Annuity Plan.

Settlement of Salem Litigation In 1997, the Company received $70 million pursuant to the May 1997 settlement agreement with Public Service Electric and Gas Company resolving a suit filed by the Company concerning the shutdown of Salem.

Other, Net consists of the following:

		At December 31,	
In Thousands	**1999**	1998	1997
Interest income	**$ 51,619**	$ 26,349	$ —
Gain on sale of assets	**13,954**	1,511	—
Settlement of power purchase agreement	**—**	14,250	—
Write-off of investments	**(14,618)**	(7,128)	(20,045)
Nonutility activities	**(34,806)**	(49,234)	(33,246)
Other	**2,462**	(6,826)	1,458
Total	**$ 18,611**	$(21,078)	$(51,833)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Regulatory Assets

At December 31, 1999 and 1998, the Company had deferred the following regulatory assets on the Consolidated Balance Sheets:

In Thousands	1999	1998
Competitive transition charge (see Note 5)	**$5,274,624**	$5,274,624
Recoverable deferred income taxes (see Note 16)	**638,060**	614,445
Loss on reacquired debt	**70,711**	77,165
Compensated absences	**4,298**	4,289
Deferred energy costs	**6,874**	29,847
Non-pension postretirement benefits	**84,421**	90,915
Total	**$6,078,988**	$6,091,285

At December 31, 1999, the CTC includes the unamortized balance of $3.9 billion of ITP sold to PETT in connection with the securitization of stranded cost recovery. ITP represents the irrevocable right of the Company or its assignee to collect non-bypassable charges from customers to recover stranded costs. See Note 4 – Rate Matters.

25. Exelon Infrastructure Services Acquisitions

In October 1999, EIS, an unregulated subsidiary of the Company, acquired the stock or assets of six utility service contracting companies for an aggregate purchase price of approximately $233 million, including $11 million of EIS stock. The purchase price also contains estimated contingent payments of $20 million based upon the achievement of targeted earnings of the acquired companies over a one year period. The acquisitions were accounted for using the purchase method of accounting. The allocation of purchase price to the fair value of assets acquired and liabilities assumed is as follows (in thousands):

Current Assets	$143,249
Long-Term Assets	85,893
Goodwill	121,110
Current Liabilities	(115,408)
Long-Term Liabilities	(1,352)
Total	$233,492

Goodwill associated with these acquisitions is being amortized over 20 years.

At December 31, 1999, Other Current Assets includes $48 million of Costs and Earnings in Excess of Billings on uncompleted contracts and Other Current Liabilities includes $9 million of Billings in Excess of Costs and Earnings on uncompleted contracts.

26. AmerGen Energy Company, L.L.C.

In 1999, AmerGen, the Company's joint venture with British Energy plc, purchased Clinton Nuclear Power Station (Clinton) and Three Mile Island Unit No. 1 Nuclear Generating Facility. In 1999, AmerGen also entered into agreements to purchase Nine Mile Point Unit 1 Nuclear Generating Facility, a 59% undivided interest in Nine Mile Point Unit 2 Nuclear Generating Facility, Oyster Creek Nuclear Generating Facility and Vermont Yankee Nuclear Power Station. These purchases are expected to be completed in 2000 upon receipt of the required federal and state approvals. The Company accounts for its investment in AmerGen under the equity method of accounting. In conjunction with each of these acquisitions, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission each nuclear plant discounted to net present value using the NRC's mandated rate of 2%. AmerGen believes that the amount of the trust funds and investment earnings thereon will be sufficient to meet its decommissioning obligations.

27. Quarterly Data (Unaudited)

The data shown below include all adjustments which the Company considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Income (Loss) Before Extraordinary Item		Net Income (Loss)	
In Millions	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Quarter ended								
March 31	**$1,256**	$1,190	**$376**[a]	$287	**$157**	$114	**$157**	$114
June 30	**1,194**	1,215	**252**	366	**96**[b]	151	**69**	151
September 30	**1,732**	1,786	**484**	549	**231**	274	**231**	274
December 31	**1,255**	1,072	**297**	84	**135**	(7)[c]	**125**	(26)

	Earnings (Loss) Applicable to Common Stock		Average Shares Outstanding		Earnings (Loss) Per Average Share Before Extraordinary Item		Earnings (Loss) Per Average Share	
In Millions	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Quarter ended								
March 31	**$153**	$110	**223.4**	222.5	**$0.69**	$0.50	**$0.69**	$0.50
June 30	**66**	148	**192.0**	222.7	**0.48**	0.66	**0.34**	0.66
September 30	**228**	270	**186.6**	223.1	**1.22**	1.21	**1.22**	1.21
December 31	**123**	(28)	**183.8**	224.5	**0.71**	(0.04)	**0.66**	(0.13)

(a) Includes the reclassification of a $7 million charge for the abandonment of an information system implementation from Other Income and Deductions to Operating and Maintenance Expense (O&M).
(b) Reflects increased fuel and energy interchange expenses related to Exelon Energy and O&M expenses related to Clinton.
(c) Reflects a $125 million charge related to the Early Retirement and Separation Program.

FINANCIAL STATISTICS

In Millions, except per share data	1999	1998	1997	1996	1995	1994
				For the Years Ended December 31,		
Operating Revenues	**$ 5,437**	$5,263	$ 4,601	$ 4,284	$ 4,186	$ 4,041
Operating Income	**1,409**	1,286	1,006	1,249	1,401	1,064
Income before Extraordinary Item	**619**	532	337	517	610	427
Extraordinary Item (net of income taxes)	**(37)**	(20)	(1,834)	—	—	—
Net Income (Loss)	**582**	513	(1,497)	517	610	427
Earnings (Loss) Applicable to Common Stock	**570**	500	(1,514)	499	587	389
Earnings per Average Common Share:						
Income Before Extraordinary Item:	**$ 3.10**	$ 2.33	$ 1.44	$ 2.24	$ 2.64	$ 1.76
Extraordinary Item	**(0.19)**	(0.09)	(8.24)	—	—	—
Net Income (Loss)	**$ 2.91**	$ 2.24	$ (6.80)	$ 2.24	$ 2.64	$ 1.76
Dividends per Common Share	**$ 1.00**	$ 1.00	$ 1.80	$ 1.755	$ 1.65	$ 1.545
Common Stock Equity	**$ 9.78**	$ 13.61	$ 12.25	$ 20.88	$ 20.40	$ 19.41
Average Shares of Common Stock Outstanding	**196.3**	223.2	222.5	222.5	221.9	221.6

In Millions	1999	1998	1997	1996	1995	1994
					At December 31,	
Current Assets	**$ 1,213**	$ 582	$ 1,003	$ 420	$ 426	$ 427
Property, Plant and Equipment, net	**5,045**	4,804	4,671	10,942	10,939	11,003
Deferred Debits and Other Assets	**6,862**	6,662	6,683	3,899	3,944	3,992
Total Assets	**$13,120**	$12,048	$12,357	$15,261	$15,309	$15,422
Current Liabilities	**$ 1,304**	$ 1,735	$ 1,619	$ 1,103	$ 1,052	$ 850
Long-Term Debt	**5,969**	2,920	3,853	3,936	4,199	4,786
Deferred Credits and Other Liabilities	**3,753**	3,756	3,576	4,982	4,933	4,892
COMRPS	**128**	349	352	302	302	221
Mandatorily Redeemable Preferred Stock	**56**	93	93	93	93	93
Shareholders' Equity	**1,910**	3,195	2,864	4,845	4,730	4,580
Total Liabilities and Shareholders' Equity	**$13,120**	$12,048	$12,357	$15,261	$15,309	$15,422

OPERATING STATISTICS

Electric Operations	For the Years Ended December 31,					
	1999	1998	1997	1996	1995	1994
Output (Millions of Kilowatthours)						
Fossil	**9,605**	10,262	9,659	10,856	10,792	11,239
Nuclear	**32,705**	29,732	25,853	24,373	25,499	28,195
Hydro	**1,404**	1,715	1,558	2,404	1,425	1,970
Pumped storage output	**1,502**	1,426	1,403	1,540	1,741	1,596
Pumped storage input	**(1,940)**	(1,853)	(1,924)	(2,230)	(2,507)	(2,256)
Purchase and interchange	**35,912**	34,075	29,615	19,539	13,945	6,164
Internal combustion	**92**	176	144	179	175	106
Total electric output	**79,280**	75,533	66,308	56,661	51,070	47,014
Sales (Millions of Kilowatthours)						
Residential	**10,543**	10,623	10,407	10,671	10,636	10,859
Small commercial and industrial	**5,488**	6,888	6,685	6,491	6,200	6,150
Large commercial and industrial	**18,741**	15,678	15,034	15,208	15,763	15,968
Other	**986**	803	841	902	860	791
Unbilled	**(435)**	131	70	(327)	535	(205)
Retail sales	**35,323**	34,123	33,037	32,945	33,994	33,563
Interchange sales	**6,584**	3,483	1,927	935	496	768
Sales to other utilities	**36,157**	37,258	28,893	20,243	14,041	10,039
Total electric sales	**78,064**	74,864	63,857	54,123	48,531	44,370
Number of Customers						
Residential	**1,149,985**	1,343,791	1,333,861	1,324,448	1,321,379	1,350,210
Small commercial and industrial	**108,982**	145,055	144,142	142,431	141,653	143,605
Large commercial and industrial	**1,354**	3,248	3,308	3,299	3,394	3,603
Other	**84**	1,150	1,094	1,051	959	944
Total electric customers[1]	**1,261,405**	1,493,244	1,482,405	1,471,229	1,467,385	1,498,362
Operating Revenues (Millions of Dollars)						
Residential	**$ 1,291**	$ 1,377	$ 1,357	$ 1,370	$ 1,379	$ 1,371
Small commercial and industrial	**610**	784	779	749	730	710
Large commercial and industrial	**665**	1,067	1,077	1,098	1,135	1,149
Other	**840**	169	131	140	137	136
Unbilled	**(16)**	1	19	(26)	43	(11)
Retail sales	**3,390**	3,398	3,363	3,331	3,424	3,355
Interchange sales	**268**	211	59	26	17	23
Sales to other utilities	**1,189**	1,221	728	498	334	247
Total electric revenues	**$ 4,847**	$ 4,830	$ 4,150	$ 3,855	$ 3,775	$ 3,625
Electric Peak Load PECO territory						
Demand (Thousands of Kilowatts)	**7,959**	7,108	7,390	6,509	7,244	7,227
Net Electric Generating Capacity – Year-end						
Summer Rating (Thousands of Kilowatts)	**9,297**	9,262	9,204	9,201	9,078	8,956
Cost of Fuel per Million BTU	**$ 0.75**	$ 0.82	$ 0.84	$ 0.93	$ 0.87	$ 0.89
BTU per Net Kilowatthour Generated	**10,600**	10,496	10,737	10,682	10,705	11,617

[1] PECO Energy's Distribution Unit, only.

OPERATING STATISTICS (Continued)

	For the Years Ended December 31,					
	1999	1998	1997	1996	1995	1994
(Millions of Cubic Feet)						
Residential	**1,625**	1,496	1,614	1,681	1,516	1,636
House heating	**31,937**	28,402	32,666	35,471	30,698	32,246
Commercial and industrial	**16,612**	16,757	19,830	20,999	18,464	19,762
Other	**1,776**	554	673	2,571	1,582	7,039
Unbilled	**579**	(440)	212	(1,306)	1,710	(474)
Total gas sales	**52,529**	46,769	54,995	59,416	53,970	60,209
Gas transported for customers	**31,654**	28,204	30,412	27,891	48,531	29,801
Total gas sales and gas transported	**84,183**	74,973	85,407	87,307	102,501	90,010
Residential	**55,218**	55,417	55,592	56,003	56,533	57,122
House heating	**333,079**	324,081	314,335	303,996	295,481	287,481
Commercial and industrial	**36,640**	35,931	35,215	34,182	33,308	32,292
Total gas customers	**424,937**	415,429	405,142	394,181	385,322	376,895
(Millions of Dollars)						
Residential	**$ 16**	$ 16	$ 17	$ 16	$ 15	$ 16
House heating	**262**	236	265	249	236	238
Commercial and industrial	**127**	125	145	133	126	128
Other	**1**	35	3	11	5	20
Unbilled	**8**	(3)	(1)	(4)	7	(3)
Subtotal	**414**	409	429	405	389	399
Other revenues (including transported for customers)	**67**	24	22	24	22	17
Total gas revenues	**$ 481**	$ 433	$ 451	$ 429	$ 411	$ 416

SECURITIES STATISTICS

	Mortgage Bonds		Preferred Stock	
Agency	Rating	Date Established	Rating	Date Established
Duff and Phelps, Inc.	A–	10/98	BBB	10/98
Fitch Investors Service, Inc.	A–	9/92	BBB+	9/92
Moody's Investors Service	Baa1	4/92	baa2	4/92
Standard & Poor's Corporation	A–	5/99	BBB	5/99

	1999				1998			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	**$38 13/16**	**$44 3/16**	**$50 1/2**	**$46 7/16**	$42 3/16	$36 3/4	$30 5/8	$24 11/16
Low price	**$31 1/2**	**$35 7/8**	**$41 7/8**	**$35 1/4**	$36 1/2	$28 1/2	$21 3/16	$18 7/8
Close	**$34 3/4**	**$37 1/2**	**$41 7/8**	**$46 1/4**	$41 3/4	$36 3/4	$29 3/16	$22 1/8
Earnings	**$ 0.74**	**$ 1.22**	**$ 0.30**	**$ 0.65**	$ (0.13)	$ 1.21	$ 0.66	$ 0.50
Dividends	**$ 0.25**	**$ 0.25**	**$ 0.25**	**$ 0.25**	$ 0.25	$ 0.25	$ 0.25	$ 0.25

DIRECTORS AND OFFICERS

(pictured from left to right)

Susan W. Catherwood (56)
Vice Chairman of the Board,
The University of Pennsylvania

R. Keith Elliott (57)[1]
Retired Chairman,
Chief Executive Officer, Hercules, Inc.

Richard H. Glanton (53)
Partner, Reed Smith Shaw and McClay

Robert Subin (60)
Former Senior Vice President,
Campbell Soup Company

John M. Palms, Ph.D. (64)
President, University of South Carolina

Corbin A. McNeill, Jr. (60)
Chairman of the Board,
President and Chief Executive Officer,
PECO Energy Company

G. Fred DiBona, Jr. (48)
President and Chief Executive Officer,
Independence Blue Cross

Rosemarie B. Greco (53)
Principal, GRECOventures

Daniel L. Cooper (64)
Former Vice President and
General Manager,
Nuclear Services Division,
Gilbert/Commonwealth, Inc.

Ronald Rubin (68)
Chief Executive Officer, Pennsylvania
Real Estate Investment Trust

M. Walter D'Alessio (66)
President and Chief Executive Officer,
Legg Mason Real Estate Services

Joseph F. Paquette, Jr. (65)
Former Chairman of the Board,
PECO Energy Company

PECO Energy Company Board of Directors

Corbin A. McNeill, Jr. (60)
Chairman of the Board of Directors,
President and Chief Executive Officer

Gregory A. Cucchi (50)
Senior Vice President, Corporate and
President, PECO Energy Ventures

James W. Durham (62)
Senior Vice President,
Legal and General Counsel

Michael J. Egan (45)
Senior Vice President, Finance
and Chief Financial Officer

Kenneth G. Lawrence (52)
Senior Vice President, Corporate and
President, PECO Energy Distribution

Ian P. McLean (50)[2]
Senior Vice President, Corporate
and President, Power Team

Gerald R. Rainey (50)
President and Chief Nuclear Officer,
PECO Nuclear

Gerald N. Rhodes (55)[3]
Vice President, Corporate and
President, Exelon Energy

William H. Smith III (51)
Senior Vice President,
Business Services Group

David W. Woods (42)
Senior Vice President,
Corporate and Public Affairs

Ellen M. Cavanaugh (43)[4]
Vice President, Electric Supply and
Transmission, PECO Energy Distribution

John B. Cotton (54)[5]
Vice President, TMI, PECO Nuclear

Michael T. Coyle (56)[6]
Vice President, Clinton Power Station,
PECO Nuclear

David G. DeCampli (42)[4]
Vice President, Operations,
PECO Energy Distribution

John Doering, Jr. (56)
Vice President, Peach Bottom Atomic
Power Station, PECO Nuclear

Gregory P. Dudkin (42)[4]
Vice President,
Customer Marketing Services,
PECO Energy Distribution

Drew B. Fetters (48)[7]
Vice President, Nuclear Acquisitions,
PECO Nuclear

Jean H. Gibson (43)
Vice President and Controller

Joseph J. Hagan (49)
Senior Vice President, Nuclear
Operations, PECO Nuclear

Paul E. Haviland (45)
Vice President, Corporate Development

Thomas P. Hill, Jr. (51)
Vice President, Regulatory and External
Affairs, PECO Energy Distribution

Christine A. Jacobs (47)
Vice President, Support Services

James W. Langenbach (53)[5]
Vice President, Station Support,
PECO Nuclear

Charles P. Lewis (36)[8]
Vice President, Finance, PECO Nuclear

Cassandra A. Matthews (49)
Vice President, Information Technology
and Chief Information Officer

John P. McElwain (49)
Vice President, Nuclear Projects,
PECO Nuclear

J. Barry Mitchell (52)
Vice President, Treasury and Evaluation,
and Treasurer

James A. Muntz (42)
Vice President, Fossil Operations

James D. VonSuskil (53)
Vice President, Limerick Generating
Station, PECO Nuclear

Richard G. White (41)
Vice President, Corporate Planning

Katherine K. Combs (49)
Corporate Secretary

Edward J. Cullen, Jr. (52)
Assistant Corporate Secretary

Todd D. Cutler (39)
Assistant Corporate Secretary

George R. Shicora (53)
Assistant Treasurer and
Manager, Investments

[1] Effective April 1, 2000
[2] Effective October 1, 1999
[3] Effective April 19, 1999
[4] Effective July 27, 1999
[5] Effective December 20, 1999
[6] Effective December 15, 1999
[7] Effective August 7, 1999
[8] Effective October 13, 1999

SHAREHOLDER INFORMATION

Stock Exchange Listings
Most Company securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange under PE.

Dividends
The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December. The Company expects that the $1.00 per share dividend paid to common shareholders in 1999 is fully taxable as dividend income for federal income tax purposes.

Shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan (Plan). The Company pays all brokerage and service fees for Plan purchases. All shareholders have the opportunity to invest additional funds in common stock of the Company, whether or not they have their dividends reinvested, with all purchasing fees paid by the Company.

In 1999, more than 59 percent of the Company's common shareholders were participants in the Plan. Information concerning the Plan may be obtained from: EquiServe, PECO Energy Company Plan, P.O. Box 2598, Jersey City, NJ 07303-2598.

Comments Welcomed
The Company is always pleased to answer questions and provide information. Please address your comments to Katherine K. Combs, Corporate Secretary, PECO Energy Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101-8699.

Inquiries relating to shareholder accounting records, stock transfer and change of address should be directed to: EquiServe, P.O. Box 2500, Jersey City, NJ 07303-2500.

Toll-Free Telephone Lines
Toll-free telephone lines are available to the Company's shareholders for inquiries concerning their stock ownership. Calls should be directed to 1-800-626-8729.

For current Company news call 1-888-340-7326.

Annual Meeting
The Annual Meeting of the Shareholders of the Company will be held on Tuesday, June 27, 2000 at 9:30 a.m., local time, at the Millennium Hall of the Loews Philadelphia Hotel, 1200 Market Street in Philadelphia, PA. The record date for voting at the shareholders' meeting is April 5, 2000. Prompt return of proxies will be appreciated.

To vote your proxy over the internet visit http://www.vote-by-net.com

To receive future Annual Reports and proxy statements electronically, sign up at: http://www.vote-by-net.com/signup/peco

Form 10-K
Form 10-K, the annual report filed with the Securities and Exchange Commission, is available without charge to shareholders by calling 1-888-340-7326 or by obtaining a copy from our internet site http://www.peco.com/investor

Shareholders
The Company had 133,270 shareholders of record of common stock as of December 31, 1999.

Transfer Agents and Registrars
Preferred and Common Stock Registrar and Transfer Agent:
EquiServe (1-800-626-8729)
P.O. Box 2500
Jersey City, NJ 07303-2500

First and Refunding Mortgage Bond Trustee
First Union National Bank (1-800-665-9343)
Corporate Trust Operations
Customer Information Center
Redemption Bldg. 3C3
1525 West W.T. Harris Blvd.
Charlotte, NC 28288-1153

Internet Site
Visit our internet site at http://www.peco.com

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