

An Exelon Company
AmerGen Energy Company, LLC
4300 Winfield Road
Warrenville, IL 60555

www.exeloncorp.com

Nuclear
Exelon Generation
4300 Winfield Road
Warrenville, IL 60555

10 CFR 50.71(b)
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May 2, 2005

U.S. Nuclear Regulatory Commission
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Washington, DC 20555-0001

Braidwood Station, Units 1 and 2
Facility Operating License Nos. NPF-72 and NPF-77
NRC Docket Nos. STN 50-456 and STN 50-457

Byron Station, Units 1 and 2
Facility Operating License Nos. NPF-37 and NPF-66
NRC Docket Nos. STN 50-454 and STN 50-455

Clinton Power Station (CPS)
Operating License No. NPF-62
NRC Docket No. 50-461

Dresden Nuclear Power Station, Units 1, 2 and 3
Facility Operating License Nos. DPR-2, DPR-19 and DPR-25
NRC Docket Nos. 50-10, 50-237, 50-249 and 72-37

LaSalle County Station, Units 1 and 2
Facility Operating License Nos. NPF-11 and NPF-18
NRC Docket Nos. 50-373 and 50-374

Limerick Generating Station, Units 1 and 2
Facility Operating License Nos. NPF-39 and NPF-85
NRC Docket Nos. 50-352 and 50-353

Oyster Creek Generating Station (Oyster Creek)
Operating License No. DPR-16
NRC Docket No. 50-219

Peach Bottom Atomic Power Station, Units 1, 2 and 3
Facility Operating License Nos. DPR-12, DPR-44 and DPR-56
NRC Docket Nos. 50-171, 50-277, 50-278, and 72-29

Salem Generating Station, Units 1 and 2
Facility Operating License Nos. DPR-70 and DPR-75
NRC Docket Nos. 50-272 and 50-311

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Quad Cities Nuclear Power Station, Units 1 and 2
Facility Operating License Nos. DPR-29 and DPR-30
NRC Docket Nos. 50-254 and 50-265

Three Mile Island (TMI), Unit 1
Operating License No. DPR-50
NRC Docket No. 50-289

Zion Nuclear Power Station, Units 1 and 2
Facility Operating License Nos. DPR-39 and DPR-48
NRC Docket Nos. 50-295 and 50-304

Subject: Exelon Corporation Annual Financial Statements

Attached are the 2004 Annual Financial Reports for Exelon Corporation, the parent holding company of Exelon Generation Company, LLC (EGC) and AmerGen Energy Company, LLC (AmerGen). These Annual Reports contain the annual financial statements for 2004. This information is being submitted in accordance with the requirements of 10 CFR 50.71(b), 10 CFR 50.4 and 10 CFR 72.80(b).

If you have any questions or require additional information, please call David Helker at (610) 765-5525.

Respectfully,



Pamela B. Cowan
Director - Licensing & Regulatory Affairs
Exelon Generation Company, LLC
AmerGen Energy Company, LLC

Attachments: 1) Exelon Corporation Summary Annual Report
2) Exelon Corporation Financial Information

cc: Regional Administrator - NRC Region I
Regional Administrator - NRC Region III
NRC Senior Resident Inspector - Braidwood Station
NRC Senior Resident Inspector - Byron Station
NRC Senior Resident Inspector - Clinton Station
NRC Senior Resident Inspector - Dresden Nuclear Power Station
NRC Senior Resident Inspector - LaSalle County Station
NRC Senior Resident Inspector - Limerick Generating Station
NRC Senior Resident Inspector - Oyster Creek
NRC Senior Resident Inspector - Peach Bottom Atomic Station
NRC Senior Resident Inspector - Quad Cities Nuclear Power Station
NRC Senior Resident Inspector - Salem Generating Station
NRC Senior Resident Inspector - Three Mile Island, Unit 1

Exelon.



realizing the promise

Exelon Corporation 04 Summary Annual Report

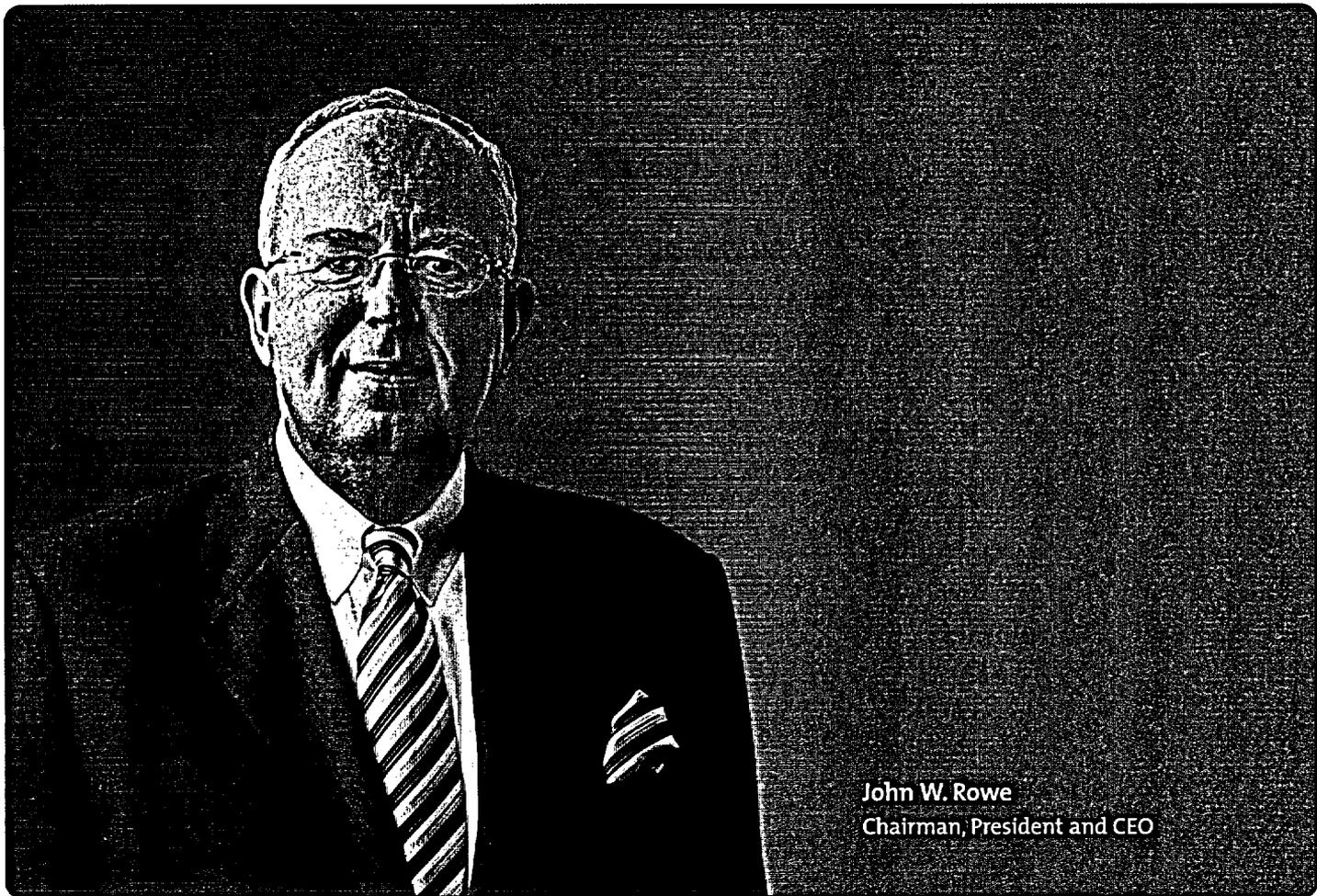
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By almost any measure, we are better positioned today than last year, or the year before.

Our success is the product of unrelenting effort, clear vision, and a determination to keep the promises we make. If we keep our commitments, perform at world-class levels, and exercise disciplined financial management, Exelon can become the best and most consistently profitable electricity and gas company in the United States.

We do not claim to have achieved our goal. But we like our chances. And we will not rest until we do.

Exelon – pursuing the vision, realizing the promise.



John W. Rowe
Chairman, President and CEO

To our shareholders

Exelon continued to build its financial record in 2004. Thanks to operating improvements, load growth, and higher wholesale prices, 2004 adjusted (non-GAAP) operating earnings were \$1,859 million, or \$2.78 per diluted share. This constitutes an increase of 6.5 percent over comparable per share earnings in 2003.* In the four years of its existence, Exelon's operating earnings have grown by an average of 7.8 percent per year. I am especially pleased that our 2004 GAAP earnings were also \$2.78 per diluted share, an increase of more than 100 percent over 2003 GAAP earnings. Our consolidated GAAP earnings reflect several events, including earnings from investments in synthetic fuel-producing facilities, losses associated with debt retirements, severance and severance-related charges, accounting changes, charges associated with our investments in Boston Generating and Sithe, and costs associated with the proposed merger with PSEG. In 2004, we had none of the large write-offs that marred 2003 performance.

*For a reconciliation of adjusted (non GAAP) operating earnings to GAAP (accounting principles generally accepted in the United States) earnings, see Exelon's fourth quarter earnings release, issued January 25, 2005, posted on the Investor Relations page at www.exeloncorp.com and included in the 8-K filed with the SEC on that date.

We are not there yet.
But we make progress
every day. And I will not
rest until it is so.

This financial performance has made Exelon the most highly valued utility in the nation, with a year-end capitalization of \$29.3 billion, and has rewarded you, our shareholders, with one of the best overall returns in the industry. Adjusted for the 2-for-1 stock split completed in May, our overall stock price rose by 33 percent over the course of the year, from \$33.18 on December 31, 2003 to \$44.07 on December 31, 2004. Exelon's total return for 2004, measured by stock appreciation and assuming dividends are reinvested, exceeded 37 percent. In contrast, the 2004 total return of the companies that comprise the Philadelphia Utility Index was 26 percent, the total return of the S&P Electrics was 24 percent and the total return of the S&P 500 was 11 percent. More significantly, from the completion of the Unicom/PECO merger in October 2000 to the end of 2004, Exelon's total return has exceeded 70 percent. In contrast, the total average return for a comparable investment in companies included in the Philadelphia Utility Index would have been 21 percent, and for the S&P 500 would have been a loss of 7 percent.

The Exelon Board of Directors raised the dividend rate on three separate occasions last year. In January, we raised the annual dividend rate from \$1.00 to \$1.10, a 10 percent increase. In July, the Board again voted to increase the dividend, this time by 12 cents annually to \$1.22 per share. The Board also approved a policy targeting dividend payout at 50 to 60 percent of ongoing earnings. In October, with increasing confidence in earnings and cash flow improvements, the Board raised the annual rate yet again to \$1.60 per share, an increase of 31 percent. Exelon now has a fully competitive dividend.

Our performance demonstrates that we are realizing the promise of the PECO/Unicom merger. In the early 1990s, both PECO and ComEd were high-cost, urban utilities with histories of expensive nuclear plants and troubled nuclear operations. Today, as Exelon affiliates, they are part of one of the most successful utilities in the country, with a solidly performing nuclear fleet that is the largest in the country, a dramatically strengthened balance sheet, and rates that have moderated. Improved nuclear operations are now holding wholesale rates lower than they otherwise would be in both ComEd and PECO's territories.

Our performance likewise sets our expectation for the promise that can be realized from our recently announced merger with Public Service Enterprise Group. PSEG is a natural partner for Exelon. The two companies enjoy complementary assets, geography and strategies, and already have a history of partnership. When finally approved by a long list of federal and state agencies, the merger will create the nation's largest utility holding company, with more than \$70 billion in total assets, and serving more than 7 million electric customers and 2 million gas customers in three major metropolitan areas. More importantly, it will result in a stronger company, one built on Exelon's nuclear prowess and strong balance sheet, and PSEG's expertise in distribution operations and experience with retail auctions.

For the very first time, we will create an integrated U.S. electric system with the scope and scale of European and Japanese companies – a company that can successfully compete in the emerging national market.

The key to our success – past, present and future – is our total commitment to the Exelon Vision Statement, and our unrelenting effort to implement it. Exelon can only provide reliable service to our customers, exceptional value to you, our shareholders, and become the best and most consistently profitable electric and gas company in the nation, if we live up to our commitments, perform at world-class levels and continue to build value through disciplined financial management.

We are not there yet. But we make progress every day. And I will not rest until it is so.

UNRELENTING EFFORT

We are a low-cost wholesale provider in a growing and increasingly competitive wholesale market. You are all familiar with the remarkable job that our nuclear team – management and employees – have done in reviving our nuclear program. The average annual nuclear capacity factor has increased from 47 percent at ComEd in 1997 to 93+ percent for the entire fleet in 2004. Nuclear production costs have decreased from \$26.80/MWh at ComEd in 1997 to \$12.43/MWh fleet-wide in 2004. Under John Young and Chris Crane's careful leadership, our nuclear capacity factor during the critical summer months actually exceeded 97 percent, while our non-nuclear generating facilities reached record levels of commercial availability.

We have succeeded despite volatile wholesale markets. Under Ian McLean's watchful eye, we made money when markets were down, and we are making more money now that the markets are recovering. Given our strength as a low-cost generator, we are able to optimize the financial value of the commodity we generate by actively managing our exposure to economic and commodity price cycles. Our record has been one of solid risk management, commercial responsiveness and the successful matching of physical assets to load.

We have successfully cut costs across our entire business. The Exelon Way, our ongoing effort to simultaneously improve performance and wring out unnecessary operation and maintenance, and capital expense across our entire business, met our announced goal of \$300 million of total program, after-tax cash savings during 2004. Jack Skolds, Frank Clark, Denis O'Brien and Ruth Ann Gillis have been engaged in an all-out effort to bring The Exelon Way to our energy delivery business by adapting and applying the nuclear management model to the wires business by the end of this year. We are focused on the fundamentals of productivity improvement, cost management and operational excellence. Similarly, Pam Strobel and her team have captured significant savings in Business Services through aggressive management of IT and the Supply Chain.

We do not foresee a clean, or simple future. But we would not trade our platform with any other utility.

We have steadily improved our balance sheet. Bob Shapard and Barry Mitchell have overseen the retirement of over \$1.2 billion of long-term debt and preferred stock in 2004, as well as over \$700 million in transition debt. We also made substantial progress in efforts to strengthen ComEd's balance sheet. As a consequence, debt as a percentage of total capitalization continues to decrease, interest coverage continues to strengthen, cash flow continues to improve and shareholders' equity increased by over \$900 million in 2004.

We also have liquidated most of our unprofitable business ventures. Thanks to the efforts of George Gilmore and his team, we completed the sale of substantially all remaining Enterprises businesses. Moreover, we completed the sale of Boston Generating back to its lenders, which eliminated approximately \$1.0 billion of outstanding debt from our balance sheet, and completed the sale of most of the remaining Sithe assets to Dynegy at the end of January 2005.

And finally, we are determined to more effectively engage our employees in this ongoing effort to make Exelon the best electricity and gas company in the country. We recognize that our efforts to improve productivity and financial performance have placed great demands upon our workforce. We do understand the stress caused by doing more with less. Our employees participate in a generous compensation system, one that includes annual bonuses tied to earnings and operating performance. They also enjoy one of the most competitive benefit programs in the nation, including pension plans that are being greatly strengthened by almost \$2.0 billion in contributions made possible by our improved financial condition. But if we are to enlist their active participation, we must also offer them greater consideration, and more consistent respect, even as we seek to change the work culture. Gary Snodgrass and his HR team are constantly looking for ways to improve employee engagement, to give our employees not only a stake, but even more important a sense of pride, in all that we have accomplished.

MAKING COMPETITION WORK

We remain deeply committed to competitive wholesale markets. Thanks to the tireless efforts of Betsy Moler and her team, ComEd has now successfully joined PECO in PJM, the foremost regional transmission organization in the country. Every month, PJM member companies do in excess of 1 million wholesale transactions, making PJM the largest market of its kind in the world. Joining PJM has dramatically enhanced competitive opportunities for our midwestern generation resources, deepening our trading opportunities and increasing our control over production costs.

Our PJM membership also has facilitated the development of an effective procurement strategy for our Illinois residential customers. In 2003, Exelon attempted to extend Exelon Generation's role as the sole source provider for ComEd's regulated residential customers. That proposal did not succeed, in part, because competitors and consumer advocates wanted to ensure that

residential customers received electricity at prices that more directly reflected the wholesale price of power. After an extensive stakeholder process, the Illinois Commerce Commission staff and many stakeholders have now recommended an auction process, similar to that employed in New Jersey, to accomplish that result. Our participation in the larger PJM market makes that auction far more effective for our customers.

And we continue our effort to develop an effective environmental strategy. Our nuclear fleet should be seen as a great asset in a time of tightening environmental requirements. While we are the fourth largest generator nationwide, among our peer group we rank dead last in total CO₂ emissions, dead last in total NO_x emissions, and next to last in SO₂ emissions. The significance of our low emissions profile can only grow as policy makers worldwide take action to address clean air and global climate issues. Yet because of the government's continuing delays in resolving the high-level waste issue, nuclear is too often discounted as a future generation source. I am pleased to report that the National Commission on Energy Policy, which I co-chaired, recognized the important role that nuclear can play in addressing both future energy and environmental needs in its recently published report "Ending the Energy Stalemate: A Bipartisan Strategy to Meet America's Energy Challenges."

LEADING THE WAY

As we look to the future, we know many things. We know that fundamental utility obligations remain imperative – this is still a business about providing real service, with real assets, to real customers. We know that maintaining our position as a low-cost provider will remain critically important. We know that public officials will continue to demand that electricity be supplied with high reliability at an acceptable price. We know that wholesale competition continues to grow, and that the benefits of wholesale competition are becoming more and more evident. And we know that ours is a mature industry, one where growth can best be assured by increased productivity and continued consolidation.

There are also many things that we cannot know. There are now three competing models for the industry playing in various regions of the country, and we do not know which, if any, will define retail business in the future. The states in which we do business continue to support wholesale competition and are working constructively to marry wholesale competition with regulated retail service. Other states, however, have retained or are returning to monopolistic franchises, or integrated resource management, where regulators make the initial decision of what the utility should buy. At least for the foreseeable future, the state of competition will vary from state to state and from year to year.

We have developed a robust platform for dealing with both the knowns and the unknowns of this business. We have written-off most of the cost of our

nuclear fleet, while dramatically improving its performance and reducing its operating costs. We have placed that fleet in a market-based generation company that operates in competitive states. We have sold the ComEd coal fleet, thereby creating a competitive market in Northern Illinois. By joining ComEd with PECO in PJM, we have ensured that both our retail affiliates, and much of our generation business, operate in a common, highly successful competitive market.

We are dramatically extending our platform through the recently announced PSEG merger. Acquiring PSEG satisfies both our near-term financial criteria and our longer term strategic objectives. Once completed, the merger will afford us greater scope, scale and cost synergies. It will assure greater diversity of regulation and markets. Most importantly, it has the potential to deliver years of continued growth, much as the original PECO/Unicom merger has done. My sincere thanks to Randy Mehrberg and his Exelon team for their efforts in putting this deal together, to Jim Ferland and the PSEG management team for their hard work and courage, and to the Boards of both companies for both their questions and confidence.

We do not foresee a clean, or simple future. But we would not trade our platform with any other utility. We are Exelon, one company, with one vision, striving to deliver exceptional service to our customers, and extraordinary value to our shareholders.



John W. Rowe
Chairman, President and CEO
Exelon Corporation
April 4, 2005

This communication is not a solicitation of a proxy from any security holder of Exelon Corporation or Public Service Enterprise Group Incorporated. Exelon has filed a Registration Statement on Form S-4 with the SEC (Registration No. 333-122704) containing a preliminary joint proxy statement/prospectus regarding the proposed transaction involving Exelon Corporation and Public Service Enterprise Group Incorporated. We urge investors and security holders to read the definitive joint proxy statement/prospectus regarding the proposed transaction and any other relevant documents when they become available, because they will contain important information about Exelon, PSEG and the proposed merger. Investors and security holders will be able to obtain these materials (when they are available) and other documents filed with the SEC free of charge at the SEC's website www.sec.gov. In addition, a copy of the definitive joint proxy statement/prospectus (when it becomes available) may be obtained free of charge from Exelon Shareholder Services, 10 South Dearborn Street, P.O. Box 805398, Chicago, Illinois 60680-5398, or from PSEG, Investor Relations, 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171.

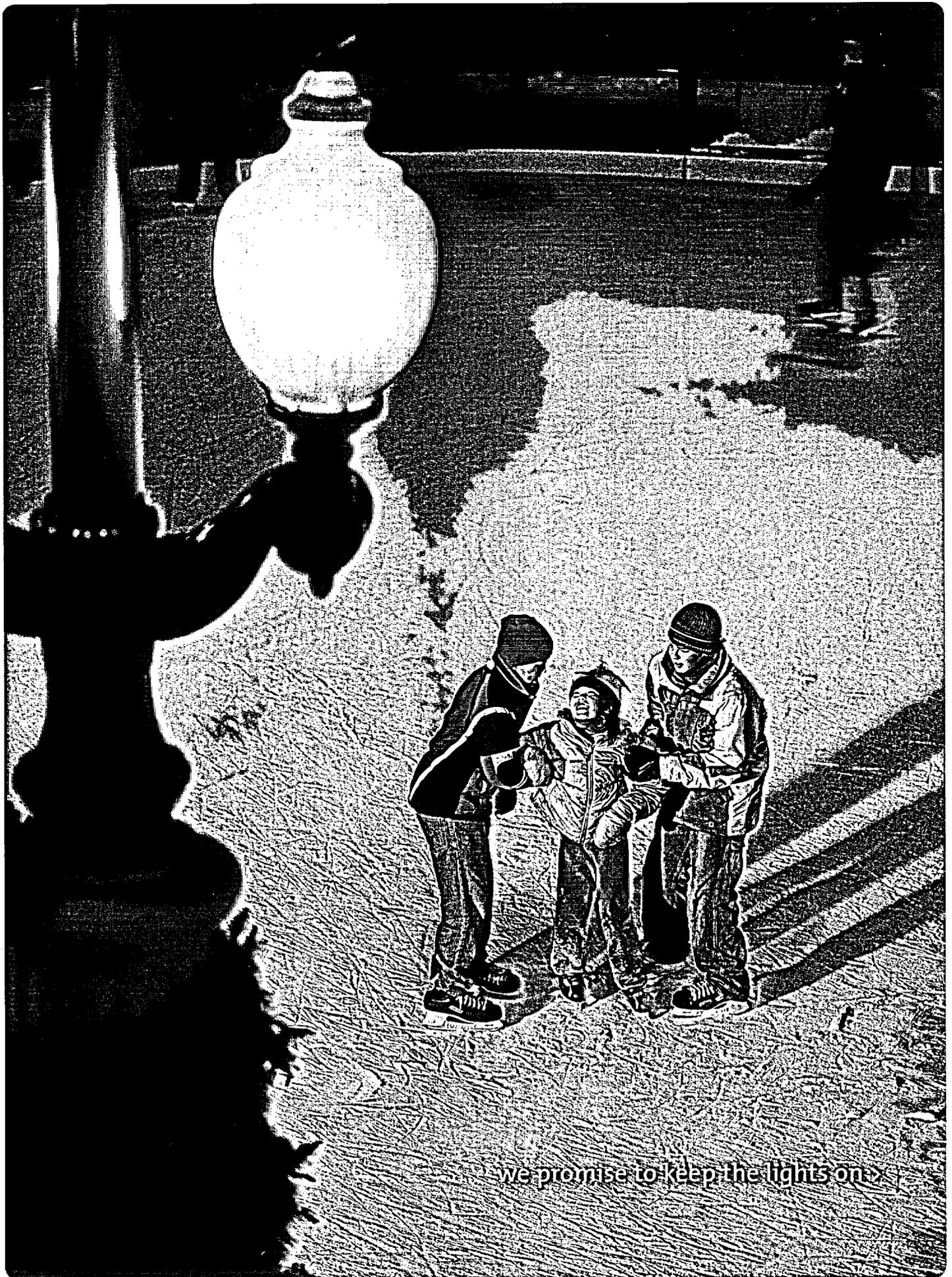
The respective directors and executive officers of Exelon and PSEG and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding Exelon's and PSEG's directors and executive officers and other participants in the solicitation and a description of their direct and indirect interests, by security holdings or otherwise, is available in the preliminary joint proxy statement/prospectus contained in the above-referenced Registration Statement on Form S-4.

Exelon One Company, One Vision

Exelon strives to build exceptional value –
by becoming the best and most consistently profitable
electricity and gas company in the United States.

To succeed, we must...

- > Live up to our commitments
- > Perform at world-class levels
- > Build value through disciplined financial management



we promise to keep the lights on >

Realizing our commitment to customers...

This is still a business about delivering real service, from real assets, to real customers.

today

Exelon is a recognized nuclear and financial leader. We have the largest and one of the better performing nuclear fleets in the country. We have shown outstanding financial discipline. We have invested over \$3 billion in recent years in new transmission and distribution infrastructure, and we are working every day to apply the lessons learned in nuclear and finance to our distribution business. We still have much to do, but every day we get better.

tomorrow

Exelon will be recognized as a public service leader, the nation's foremost electric and gas utility. While competition has changed the way we price our generation product, it will never change our fundamental commitment to reliable delivery service. Millions of customers depend upon us every day, and every day we will work to improve our productivity, improve our service, and improve our customer satisfaction.

5.2m

Each of our 5.2 million customers
looks to us for reliable service

Realizing our commitment to competition...

Continuous improvement and world-class performance are the keys to success in emerging competitive markets.

today

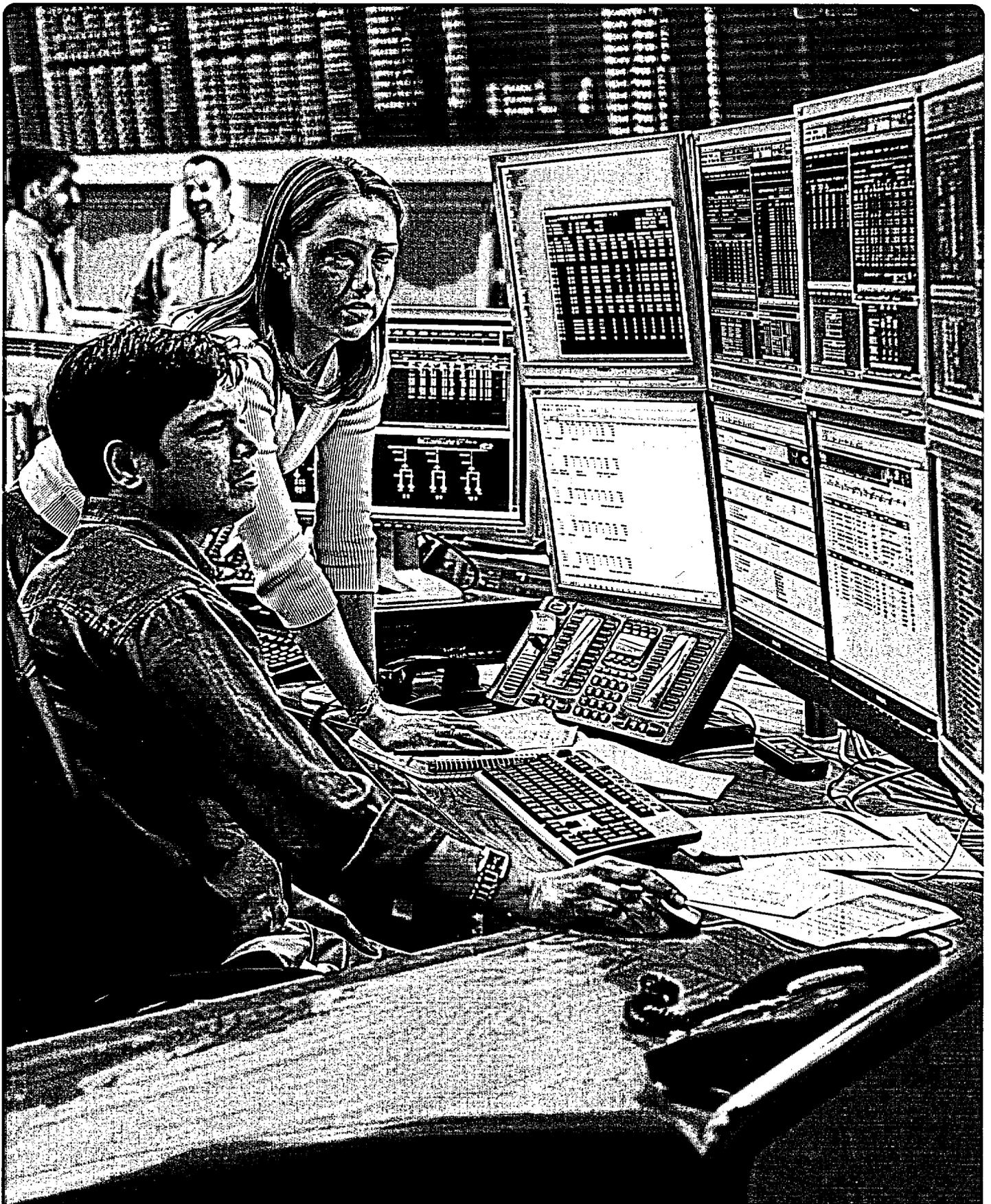
Exelon is a leading proponent of regional competition. We remember the days when cost-plus ratemaking led to increasing rates, deteriorating service, and economic disadvantage in the regions we served. Now, we strive every day to reduce our production costs, improve our service, and realize world-class performance. As a consequence, average rates in our service territories have moderated and even decreased compared to other urban areas, and our shareholders enjoy one of the best total returns in the industry. Competition works.

tomorrow

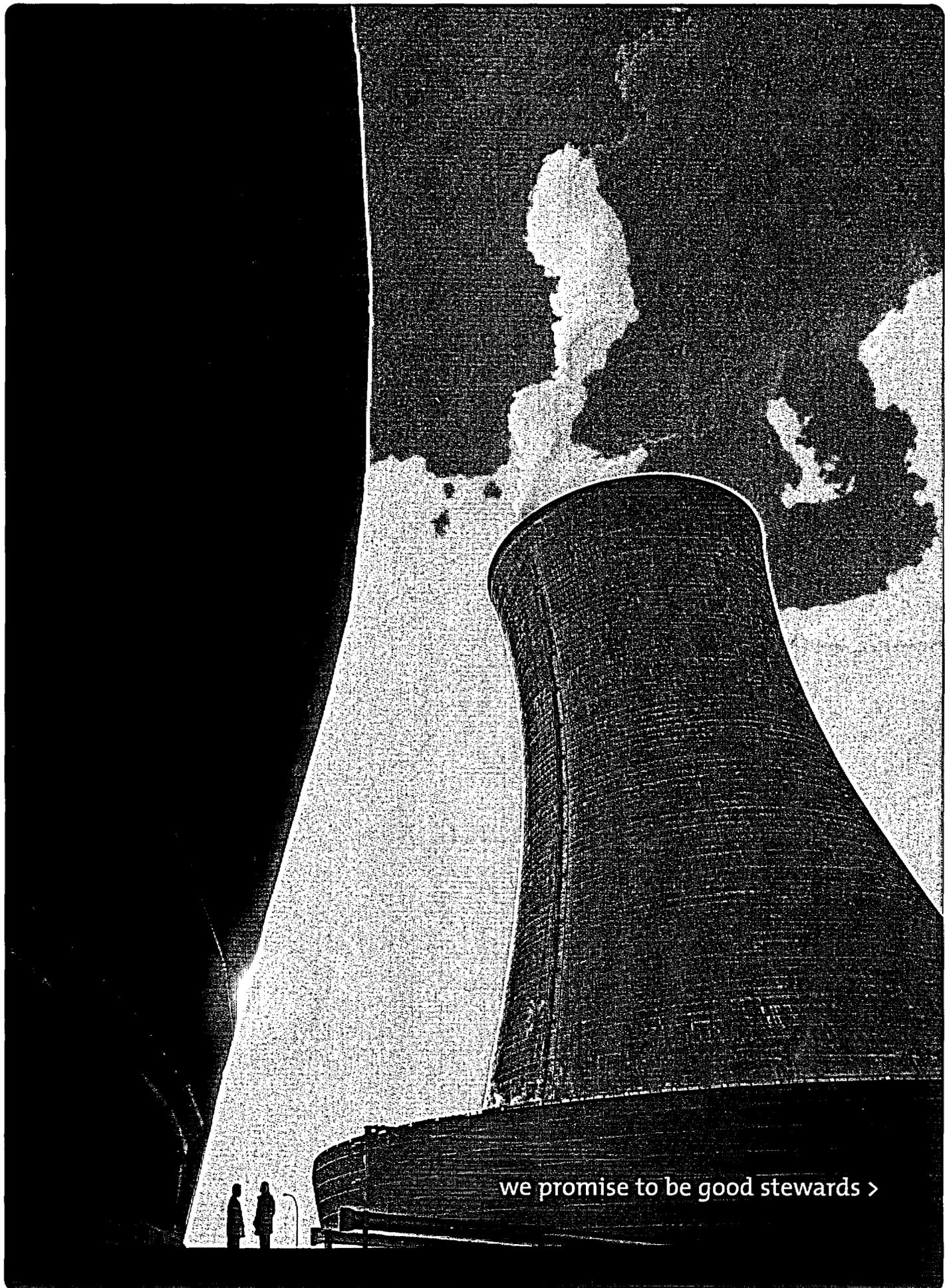
Exelon will be the first truly national utility. As the benefits of competition become more apparent, wholesale competition will grow in other regions, and Exelon will be well positioned to grow with it. Our low-cost nuclear fleet, our financial discipline and our commitment to continuous improvement will be an advantage for us in the emerging national market.

1st Q

Relentlessly pursue top quartile performance in everything we do



< we promise to compete for your business



we promise to be good stewards >

Realizing our obligation to the environment...

In a world increasingly concerned about global climate change, nuclear power will play a pivotal role.

today

Exelon is a good safety and environmental steward. Our accident rate in nuclear and our OSHA recordables in Exelon Energy Delivery are among the best in the industry. And although we rank fourth in overall generation, our large nuclear fleet means we rank last among our peer group in NO_x emissions, last in CO₂ emissions, and next to last in SO₂ emissions.

tomorrow

Exelon will be in the forefront of industry efforts to combat global warming. According to the National Commission on Energy Policy, the crucial challenge of capping and ultimately reducing greenhouse gas emissions will be considerably more difficult without nuclear. The successful relicensing of our existing fleet, and the successful licensing of advanced nuclear designs through the NuStart consortium, will aid in reducing future greenhouse gas emissions, as well as our reliance on foreign energy sources.

100%

Our goal: 100 percent compliance,
100 percent of the time

Realizing our commitment to employees...

To do more with less, employees must have a stake and a sense of pride in what is being accomplished.

today

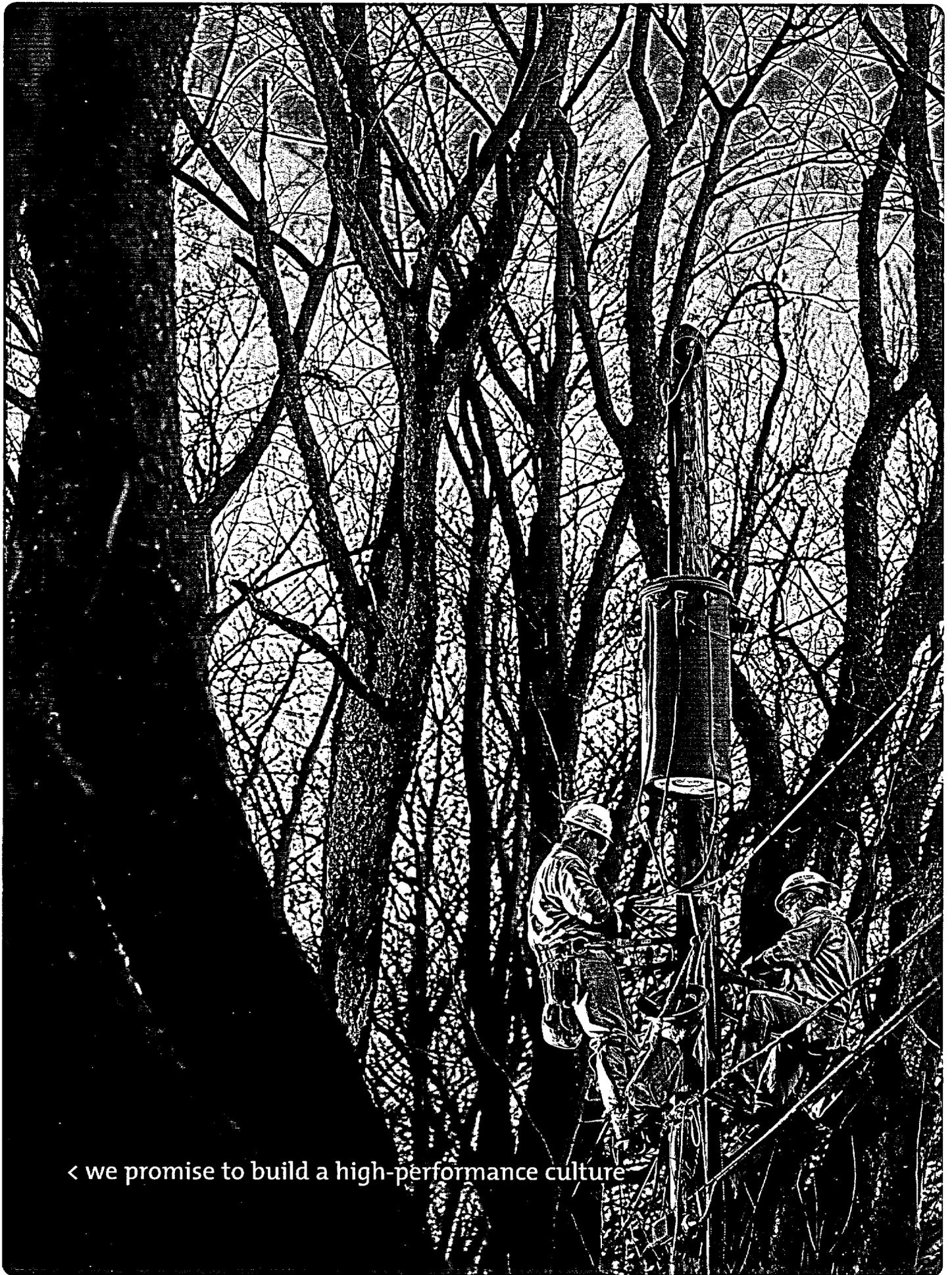
Exelon is engaged in an all-out effort to extend our nuclear success to other parts of our business through The Exelon Way. Our goal is to optimize the work we do, and the way we do it, and build a unified, high-performance organization. We recognize, however, that enlisting the enthusiasm and creativity of our employees is critical to our success. We must listen and communicate better, and show respect most of all.

tomorrow

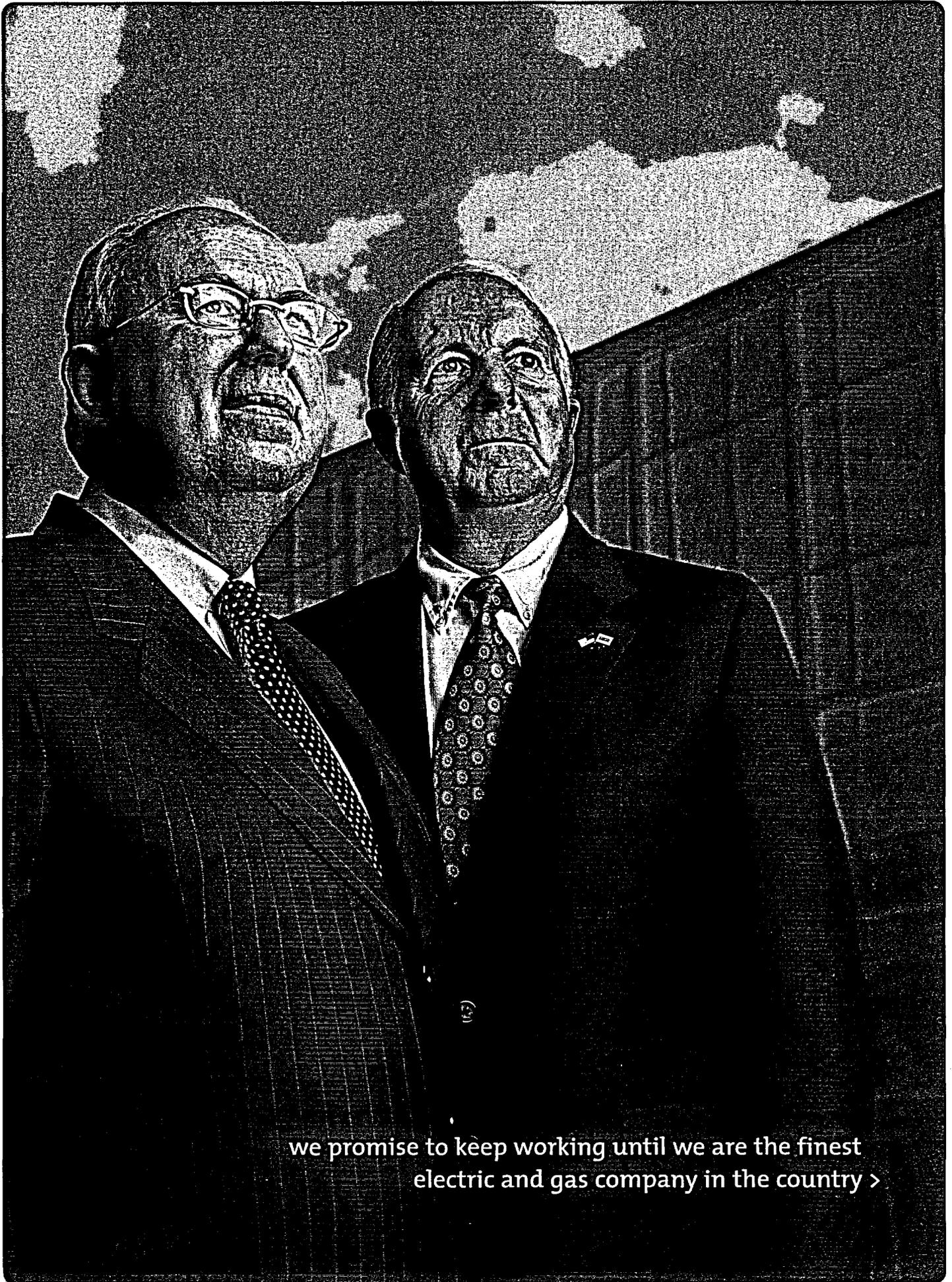
Exelon will redefine what it means to work for a utility. Just as industry restructuring has created new opportunities for the company as a whole, it has created new incentives for our employees as well. In a competitive world, a successful company provides a challenging and diverse work environment that develops and encourages employees to be their best. It is also a place where employees are committed to improving productivity, service and customer relations.

17,300

Engaging our entire workforce



< we promise to build a high-performance culture



we promise to keep working until we are the finest
electric and gas company in the country >

John Rowe and Jim Ferland at PSEG headquarters.

Realizing our commitment to shareholders...

The faces may change, but the Vision remains. Exelon is one Company, with one Vision – to be the finest electric and gas company in the country.

today

Exelon is one of the most successful utilities in country, with the largest nuclear fleet, a strong balance sheet, and the largest market cap in the industry. It is also one of the most profitable, with a total return over the past four years exceeding 70 percent. We have delivered extraordinary value to our shareholders.

tomorrow

Exelon has the potential to set the standard for the industry. Our impending merger with PSEG will afford us greater scope, scale and cost synergies, and has the potential to deliver growth for years to come. By combining Exelon's nuclear and balance sheet prowess with PSEG's strong distribution performance and auction savvy, we have a rare opportunity to create the finest electric and gas company in the nation.

no.1

Our goal: exceptional service,
extraordinary value

Exelon at a Glance

EXELON ENERGY DELIVERY

Exelon Energy Delivery (EED) has the largest electric customer base in the nation, serving approximately 5.2 million electric and 460,000 natural gas customer accounts. With nearly 7,700 employees, EED distributes approximately 125,000 gigawatt-hours of electricity annually to customers via 55,900 circuit miles of overhead lines and 48,300 cable miles of underground lines. PECO Energy also provides approximately 87,000 million cubic feet of natural gas annually through 11,800 gas pipeline miles.

Operationally, 2004 was another challenging year as hundreds of crews in both markets battled Mother Nature's fury, from snow storms in the winter to wind storms in the spring and fall. In addition to keeping power on in Northern Illinois and Philadelphia, EED Operations employees made headlines with their generous support of struggling hurricane-ravaged utilities in Florida. As well, EED leadership changes were made to streamline the organization, gain efficiencies and improve performance across ComEd and PECO.

Through a multi-pronged approach, EED is fulfilling promises to keep the lights on and the gas flowing that were made in an advertising campaign shown locally in both Chicago and Philadelphia. EED established more than 300 common processes and procedures, including a common Safety Rulebook. EED's physical infrastructure also benefited from several initiatives, including improvements to the work management process and accelerating the schedule for capacity work originally planned for 2005. Cable faults were significantly reduced, worst-performing feeders were replaced and hundreds of preventive maintenance and upgrade measures were introduced. Operations tackled the backlog in new businesses and took measures to prevent any delays from happening in 2005, including the introduction of Fix It Now (FIN) teams that will help EED manage emergent work all year long. EED also revamped its key leadership in several vital areas of the company, including Customer & Marketing Services and the Work Management Department, to ensure that its focus is on the customer first.

EXELON GENERATION

In 2004, Exelon Generation worked to further integrate its business units, tailoring them to be most profitable during shifting market conditions.

Exelon Nuclear, with approximately 6,600 employees, operates the largest commercial nuclear fleet in the nation and the third largest in the world. Exelon Nuclear represents approximately 20 percent of the U.S. nuclear industry's power capacity and about 3 percent of all U.S. power generation. Through its focus on safe operations and reliable production, Exelon Nuclear is a leader in the nuclear power industry. In 2004, Exelon Nuclear achieved two significant accomplishments. The nuclear fleet set a best ever fleet capacity factor record of 97.3 percent during the summer months of June through August. Exelon Nuclear also obtained the Nuclear Regulatory Commission's approval for 20-year operating license renewals for both Dresden and Quad Cities Stations.

Exelon Power, with approximately 650 employees, operates the company's fossil and hydroelectric fleet of generating assets. With plants in Illinois, Maryland, Massachusetts, Pennsylvania and Texas, Exelon Power is capable of supplying approximately 8,000 megawatts of safe, efficient, and environmentally responsible power generation. Exelon Power's fleet of assets complements Exelon Nuclear's base load units by providing reliable base load, intermediate and peak generation while providing Power Team with a diverse portfolio to remain flexible in the continually changing electric-utility industry.

Exelon Power Team is the wholesale power marketing division that focuses on optimizing the value of Exelon's generating portfolio while providing bulk physical power to Exelon Energy Delivery (ComEd and PECO); Exelon Energy, the corporation's retail energy marketing entity in the Midwest; and other wholesale customers. Power Team also purchases fuel for Exelon Power. Since its formation in 1994, Power Team has had a perfect record of supplying its customers with the product they need, when they need it most.

EXELON BUSINESS SERVICES COMPANY

Exelon's Business Services Company (BSC) is a direct, wholly owned subsidiary of Exelon Corporation. With approximately 2,000 employees, including nearly 450 employees solely providing service to ComEd and PECO, BSC provides Exelon with overall corporate governance services, utility-specific governance of Exelon Energy Delivery's shared functions, and traditional shared services including information technology, supply management, legal services, payroll, accounts payable and employee benefits administration.

As a shared services organization, BSC delivers value to Exelon's business units and optimizes solutions for the company as a whole. By leveraging economies of scale, adopting best practices and implementing process improvements, BSC provides efficiencies and cost savings in keeping with The Exelon Way, positioning Exelon for growth.

Financially and operationally, 2004 was a banner year for BSC. The business unit surpassed aggressive Exelon Way savings targets from centralization of Exelon's supply and IT functions. It leveraged technology to improve processes, standardized practices and managed performance across its functions to increase overall effectiveness. To bring more rigor to standardization efforts across BSC, the business unit adopted the management model concept that has been so successful at Exelon Nuclear.

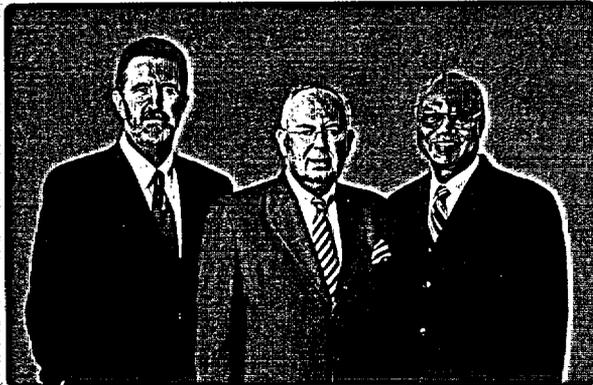
One major element of The Exelon Way program was the reorganization and consolidation of ComEd and PECO operating functions to achieve efficiencies, economies of scale and best practices throughout Exelon's utility businesses. As a result of this reorganization, approximately 450 employees were transferred into the services company to provide executive and centralized management services to both ComEd and PECO. Their focus will continue to be the standardization of utility processes across both companies and the achievement of synergies through consolidation of common functions.

In 2005, BSC will focus on enhancing its partnerships with Exelon business units, employees and suppliers, as it continues to refine and standardize operations. Its overall goal is to provide exceptional service and unparalleled value in supporting Exelon's quest for world-class performance.

EXELON ENTERPRISES

We have exited essentially all of our Enterprises businesses to focus on our core utility business.

Strategy and Policy Committee



pictured left to right

Robert S. Shapard
Executive Vice President and Chief Financial Officer

John W. Rowe
Chairman, President and Chief Executive Officer

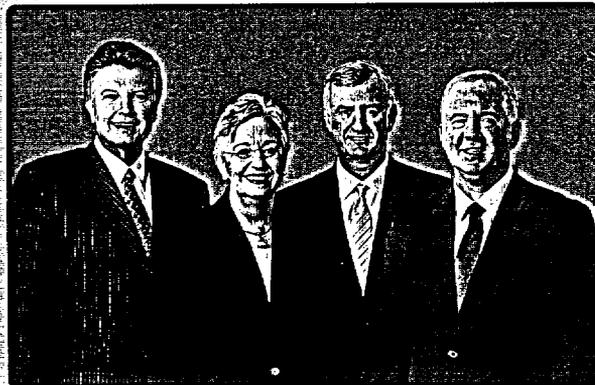
Frank M. Clark
Executive Vice President & Chief of Staff, Exelon, and President, ComEd

S. Gary Snodgrass
Executive Vice President and Chief Human Resources Officer

Elizabeth A. Moler
Executive Vice President, Government and Environmental Affairs
and Public Policy

John F. Young
Executive Vice President, Exelon and President, Exelon Generation Company

Ian P. McLean
Executive Vice President, Exelon and President, Power Team

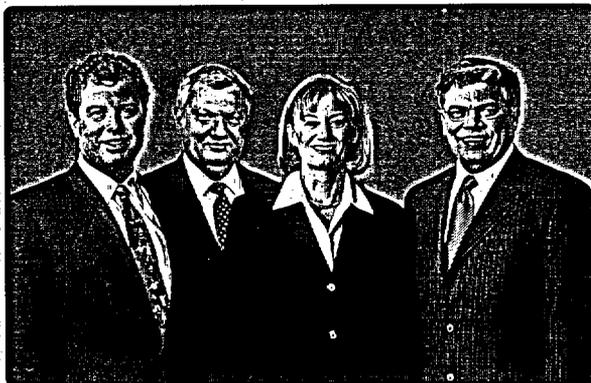


Randall E. Mehrberg
Executive Vice President and General Counsel

Oliver D. Kingsley, Jr.*
President and Chief Operating Officer, Exelon Corporation

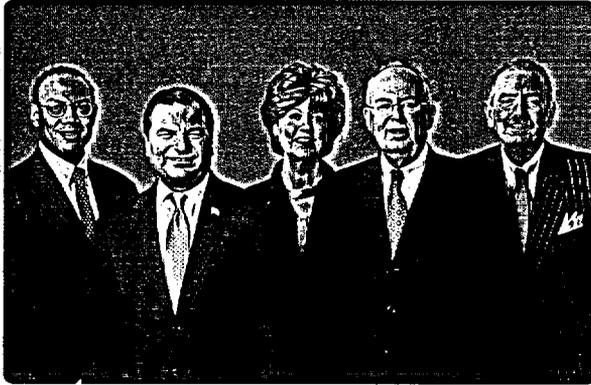
Pamela B. Strobel
Executive Vice President and Chief Administrative Officer, Exelon,
and President, Exelon Business Services Company

John L. Skolds
Executive Vice President, Exelon and President, Exelon Energy Delivery



**Oliver D. Kingsley, Jr. retired on November 1, 2004. During his 7 years with Exelon, Oliver transformed the performance of the company's nuclear fleet, and was instrumental in developing the next generation of Exelon's operational leadership. We are grateful to Oliver for his extraordinary contributions.*

Board of Directors



pictured left to right

John W. Rogers, Jr.
Chairman and Chief Executive Officer, Ariel Capital Management, LLC

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer, Aqua America, Inc.

Rosemarie B. Greco
Director, Office of Health Care Reform, Commonwealth of Pennsylvania

John W. Rowe
Chairman, President and Chief Executive Officer, Exelon Corporation

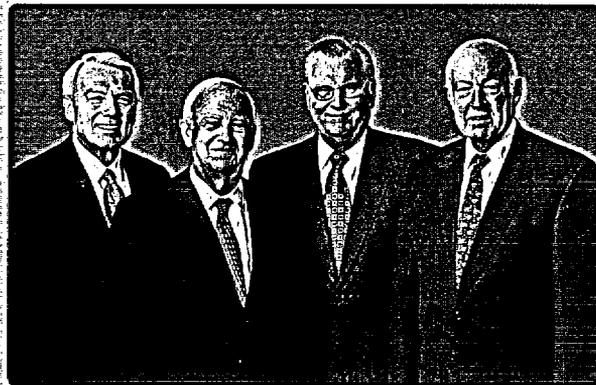
G. Fred DiBona, Jr.*
President and Chief Executive Officer, Independence Blue Cross

John M. Palms, Ph.D.
Distinguished President Emeritus, University of South Carolina

Edgar D. Jannotta
Chairman, William Blair & Company, LLC

Edward A. Brennan
Retired Chairman and Chief Executive Officer, Sears, Roebuck and Co.

Richard L. Thomas
Retired Chairman, First Chicago NBD Corporation



M. Walter D'Alessio
Vice Chairman, NorthMarq Capital, Inc.

Ronald Rubin
Chairman and Chief Executive Officer, Pennsylvania Real Estate Investment Trust

Sue L. Gin
Chairman and Chief Executive Officer, Flying Food Group, LLC

Nelson A. Diaz
Partner, Blank, Rome, LLP

Bruce DeMars
Admiral (Retired), United States Navy



**Fred DiBona passed away on January 11, 2005. A tremendous asset to Exelon's board, Fred brought profound judgment and a delightful sense of humor to board deliberations. He was a good friend, and will be missed.*

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Summary of Earnings and Financial Condition

Results for 2000 reflect the effects of the merger of Exelon, Unicom and PECO on October 20, 2000. That merger was accounted for using the purchase method of accounting with PECO as the acquiring company. Accordingly, financial results for 2000 consist of PECO's results for 2000 and Unicom's results after October 20, 2000.

in millions, except for per share data	For the Years Ended December 31,				
	2004	2003	2002	2001	2000
Statement of Income data:					
Operating revenues	\$14,515	\$15,812	\$14,955	\$14,918	\$ 7,499
Operating income	3,433	2,277	3,299	3,362	1,527
Income before cumulative effect of changes in accounting principles	\$ 1,841	\$ 793	\$ 1,670	\$ 1,416	\$ 562
Cumulative effect of changes in accounting principles (net of income taxes)	23	112	(230)	12	24
Net income	\$ 1,864	\$ 905	\$ 1,440	\$ 1,428	\$ 586
Earnings per average common share (diluted):					
Income before cumulative effect of changes in accounting principles	\$ 2.75	\$ 1.21	\$ 2.57	\$ 2.19	\$ 1.38
Cumulative effect of changes in accounting principles (net of income taxes)	0.03	0.17	(0.35)	0.02	0.06
Net income	\$ 2.78	\$ 1.38	\$ 2.22	\$ 2.21	\$ 1.44
Dividends per common share	\$ 1.26	\$ 0.96	\$ 0.88	\$ 0.91	\$ 0.46
Average shares of common stock outstanding – diluted	669	657	649	645	408

in millions	December 31,				
	2004	2003	2002	2001	2000
Balance Sheet data:					
Current assets	\$ 3,926	\$ 4,561	\$ 4,125	\$ 3,735	\$ 4,151
Property, plant and equipment, net	21,482	20,630	17,957	14,665	15,914
Noncurrent regulatory assets	4,790	5,226	5,546	5,774	6,045
Goodwill	4,705	4,719	4,992	5,335	5,186
Other deferred debits and other assets	7,867	6,800	5,249	5,460	5,378
Total assets	\$42,770	\$41,936	\$37,869	\$34,969	\$36,674
Current liabilities	\$ 4,882	\$ 5,720	\$ 5,874	\$ 4,370	\$ 4,993
Long-term debt, including long-term debt to financing trusts ^(a)	12,148	13,489	13,127	12,879	12,958
Regulatory liabilities	2,204	1,891	486	225	1,888
Other deferred credits and other liabilities	13,984	12,246	9,968	8,749	8,959
Minority interest	42	–	77	31	31
Preferred securities of subsidiaries ^(a)	87	87	595	613	630
Shareholders' equity	9,423	8,503	7,742	8,102	7,215
Total liabilities and shareholders' equity	\$42,770	\$41,936	\$37,869	\$34,969	\$36,674

(a) The mandatorily redeemable preferred securities of ComEd and PECO were reclassified as long-term debt to financing trusts in 2003 in accordance with FIN 46-R (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46-R) and FIN 46, "Consolidation of Variable Interest Entities" (FIN 46).

Discussion of Financial Results – Exelon

Results of Operations

in millions, except for per share data	2004	2003	Favorable (Unfavorable) Variance
Operating revenues	\$14,515	\$15,812	\$(1,297)
Purchased power and fuel expense	5,082	6,375	1,293
Impairment of Boston Generating, LLC long-lived assets	–	945	945
Operating and maintenance expense	3,976	4,508	532
Depreciation and amortization expense	1,305	1,126	(179)
Operating income	3,433	2,277	1,156
Other income and deductions	(921)	(1,148)	227
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	2,512	1,129	1,383
Income taxes	692	331	(361)
Income before cumulative effect of changes in accounting principles	1,841	793	1,048
Net income	1,864	905	959
Diluted earnings per share	2.78	1.38	1.40

Net Income. Net income for 2004 reflects income of \$32 million, net of income taxes, for the adoption of FIN 46-R, partially offset by a loss of \$9 million, net of income taxes, related to the adoption of Emerging Issues Task Force (EITF) Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). Net income for 2003 reflects income of \$112 million, net of income taxes, for the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). See Note 1 of Exelon's Notes to Consolidated Financial Statements within its 2004 Form 10-K for further information regarding the adoptions of FIN 46-R, EITF 03-16 and SFAS No. 143.

Operating Revenues. Operating revenues decreased primarily due to decreased revenues at Enterprises due to the sale of the majority of its businesses since the third quarter of 2003, the sale of Boston Generating and Generation's adoption of EITF No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities'" (EITF 03-11) in the first quarter of 2004, which changed the presentation of certain power transactions and decreased 2004 operating revenues by \$980 million. The adoption of EITF 03-11 had no impact on net income. Operating revenues were favorably affected by Generation's acquisition of the remaining 50% of AmerGen and the consolidation of Sithe. Operating revenues were also favorably affected by Energy Delivery's increased volume growth and transmission revenues collected from PJM, partially offset by unfavorable weather conditions and customer choice initiatives.

Purchased Power and Fuel Expense. Purchased power and fuel expense decreased primarily due to Generation's adoption of EITF 03-11 during 2004 which resulted in a decrease in purchased power expense and fuel expense of \$980 million. In addition, purchased power decreased due to Generation's acquisition of the remaining 50% of AmerGen in December 2003, which was only partially offset by an increase in fuel expense, and the sale of Boston Generating. Purchased power represented 24% of Generation's total supply in 2004 compared to 37% in 2003. Purchased power also decreased due to Energy Delivery's unfavorable weather conditions and customer choice initiatives, partially offset by volume growth and transmission costs paid to PJM.

Impairment of the Long-Lived Assets of Boston Generating. Generation recorded a \$945 million charge (before income taxes) during 2003 to impair the long-lived assets of Boston Generating.

Operating and Maintenance Expense. Operating and maintenance expense decreased primarily as a result of decreased expenses at Enterprises due to the sale of the majority of its businesses since the third quarter of 2003 and decreased severance and severance-related expenses, partially offset by increased expenses at Generation due to the acquisition of the remaining 50% of AmerGen and the consolidation of Sithe. Operating and maintenance expense increased \$65 million due to investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense was primarily due to additional plant placed in service at Energy Delivery and Generation, the acquisition of the remaining 50% in AmerGen in December 2003, the consolidation of Sithe and the recording and subsequent impairment of an asset retirement cost (ARC) at Generation in 2004. See Note 14 of Exelon's Notes to Consolidated Financial Statements within its 2004 Form 10-K for additional information. The increase also resulted from increased amortization expense due to investments made in the fourth quarter of 2003 and the third quarter of 2004 in synthetic fuel-producing facilities and increased competitive transition charge amortization at PECO. These increases were partially offset by reduced depreciation and amortization expense at Enterprises due to the sale of a majority of its businesses since the third quarter of 2003.

Operating Income. Exclusive of the changes in operating revenues, purchased power and fuel expense, the impairment of Boston Generating's long-lived assets, operating and maintenance expense and depreciation and amortization expense discussed above, the change in operating income was primarily the result of increased taxes other than income in 2004 as compared to 2003, primarily due to the reduction of certain real estate tax accruals at PECO and Generation during 2003.

Other Income and Deductions. Other income and deductions reflects interest expense of \$905 million, equity in losses of unconsolidated affiliates of \$153 million, debt retirement charges of \$130 million (before income taxes) recorded at ComEd in 2004 associated with an accelerated liability management plan, impairment charges of \$255 million (before income taxes) recorded during 2003 related to Generation's investment in Sithe, an \$85 million gain (before income taxes) on the 2004 sale of Boston Generating and a \$35 million aggregate net gain on the sale of investments and assets of Thermal in 2004 (before income taxes and net of debt prepayment penalties). Equity in earnings of unconsolidated affiliates decreased by \$186 million due to the acquisition of the remaining 50% of AmerGen in December 2003, the deconsolidation of certain financing trusts during 2003 and investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004.

Effective Income Tax Rate. The effective income tax rate was 27.5% for 2004 compared to 29.3% for 2003. The decrease in the effective rate was primarily attributable to investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004.

Discussion of Financial Results – by Business Segment

Results of Operations by Business Segment

The comparisons of 2004 and 2003 operating results set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Transfer of Exelon Energy Company from Enterprises to Generation. Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, was transferred to Generation. The 2003 information related to the Enterprises and Generation segments discussed below has been adjusted to reflect the transfer of Exelon Energy Company from the Enterprises segment to the Generation segment. Exelon Energy Company's 2003 results were as follows:

in millions

Total revenues	\$834
Intersegment revenues	4
Operating revenue and purchased power from affiliates	209
Depreciation and amortization	2
Operating expenses	857
Interest expense	1
Loss before income taxes	(29)
Income taxes	(11)
Net loss	(18)

Income (Loss) Before Cumulative Effect of Changes in Accounting Principles by Business Segment

in millions	2004	2003	Favorable (Unfavorable) Variance
Energy Delivery	\$1,128	\$1,170	\$ (42)
Generation	641	(259)	900
Enterprises	(13)	(117)	104
Corporate	85	(1)	86
Total	\$1,841	\$ 793	\$1,048

Net Income (Loss) by Business Segment

in millions	2004	2003	Favorable (Unfavorable) Variance
Energy Delivery	\$1,128	\$1,175	\$ (47)
Generation	673	(151)	824
Enterprises	(22)	(118)	96
Corporate	85	(1)	86
Total	\$1,864	\$ 905	\$959

Discussion of Financial Results – Energy Delivery

Results of Operations – Energy Delivery

in millions	2004	2003	Favorable (Unfavorable) Variance
Operating revenues	\$10,290	\$10,202	\$ 88
Operating expenses			
Purchased power and fuel expense	4,760	4,597	(163)
Operating and maintenance	1,444	1,669	225
Depreciation and amortization	928	873	(55)
Taxes other than income	527	440	(87)
Total operating expense	7,659	7,579	(80)
Operating income	2,631	2,623	8
Other income and deductions			
Interest expense	(672)	(747)	75
Distributions on mandatorily redeemable preferred securities	(3)	(39)	36
Equity in losses of unconsolidated affiliates	(44)	–	(44)
Other, net	(78)	51	(129)
Total other income and deductions	(797)	(735)	(62)
Income before income taxes and cumulative effect of a change in accounting principle	1,834	1,888	(54)
Income taxes	706	718	12
Income before cumulative effect of a change in accounting principle	1,128	1,170	(42)
Cumulative effect of a change in accounting principle	–	5	(5)
Net income	\$ 1,128	\$ 1,175	\$ (47)

Energy Delivery's net income in 2004 decreased primarily due to costs associated with ComEd's accelerated retirement of long-term debt, reflected in other income and deductions – other, net, offset in part by lower interest expense. Operating income, while reflecting various changes in operating revenues and expenses, was relatively unchanged between periods.

Discussion of Financial Results – Generation

Results of Operations – Generation

As previously described, effective January 1, 2004, Exelon contributed its interest in Exelon Energy Company to Generation. Exelon Energy Company was previously reported as a part of the Enterprises segment. For comparative discussion and analysis, Exelon Energy Company's results of operations have been included within Generation's results of operations as if this transfer had occurred on January 1, 2003.

in millions	2004	2003	Favorable (Unfavorable) Variance
Operating revenues	\$7,938	\$8,760	\$ (822)
Operating expenses			
Purchased power	2,325	3,630	1,305
Fuel	1,845	2,115	270
Operating and maintenance	2,273	1,886	(387)
Impairment of Boston Generating, LLC long-lived assets	–	945	945
Depreciation and amortization	294	201	(93)
Taxes other than income	171	121	(50)
Total operating expense	6,908	8,898	1,990
Operating income (loss)	1,030	(138)	1,168
Other income and deductions			
Interest expense	(167)	(89)	(78)
Equity in earnings (losses) of unconsolidated affiliates	(14)	49	(63)
Other, net	143	(267)	410
Total other income and deductions	(38)	(307)	269
Income (loss) before income taxes, minority interest, and cumulative effect of changes in accounting principles	992	(445)	1,437
Income taxes	372	(190)	(562)
Income (loss) before minority interest and cumulative effect of changes in accounting principles	620	(255)	875
Minority interest	21	(4)	25
Income (loss) before cumulative effect of changes in accounting principles	641	(259)	900
Cumulative effect of changes in accounting principles (net of income taxes)	32	108	(76)
Net income (loss)	\$ 673	\$ (151)	\$ 824

Generation's net income in 2004 increased from 2003 due to a number of factors. The increase in Generation's 2004 net income was driven primarily by charges incurred in 2003 for the impairment of the long-lived assets of Boston Generating of \$945 million (before income taxes) and the impairment and other transaction-related charges of \$280 million (before income taxes) related to Generation's investment in Sithe. Also, 2004 results were favorably affected by the acquisition of the remaining 50% of AmerGen and an increase in revenue, net of purchased power and fuel expense, primarily due to the decrease in average realized costs resulting from the increased success in the hedging program of fuel costs in 2004.

Cumulative effect of changes in accounting principles recorded in 2004 included a benefit of \$32 million, net of income taxes, related to the adoption of FIN 46-R and in 2003 included income of \$108 million, net of income taxes, related to the adoption of SFAS No. 143.

Results of Operations – Enterprises

As previously described, effective January 1, 2004, Enterprises contributed its interest in Exelon Energy Company to Generation. Exelon Energy Company was previously reported as a part of the Enterprises segment. For comparative discussion and analysis, the results of Exelon Energy Company have been excluded from Enterprises' 2003 results of operations discussed below.

in millions	2004	2003	Favorable (Unfavorable) Variance
Operating revenues	\$155	\$ 923	\$(768)
Operating and maintenance expense	211	1,027	816
Operating loss	(62)	(139)	77
Loss before income taxes, minority interest and cumulative effect of changes in accounting principles	(7)	(187)	180
Loss before cumulative effect of changes in accounting principles	(13)	(117)	104
Net loss	(22)	(118)	96

The decrease in Enterprises' net loss before cumulative effect of changes in accounting principles in 2004 was primarily due to a decrease in operating and maintenance expense, partially offset by a decrease in operating revenues. Depreciation and amortization expense decreased \$23 million before income taxes from 2003 to 2004 primarily as a result of the sale of the majority of property, plant and equipment since September 2003. In 2004, Enterprises recorded impairment charges of investments of \$15 million before income taxes due to other-than-temporary declines in value, partially offset by 2003 charges for impairment of investments of \$46 million before income taxes and a net impairment of other assets of \$8 million before income taxes. The adoption of EITF 03-16 increased the 2004 net loss by \$9 million. The adoption of SFAS No. 143 increased the 2003 net loss by \$1 million, net of income taxes.

Exelon Corporation

Consolidated Statements of Income

in millions, except per share data	For the Years Ended December 31,		
	2004	2003	2002
Operating revenues	\$14,515	\$15,812	\$14,955
Operating expenses			
Purchased power	2,727	3,459	3,262
Purchased power from AmerGen Energy Company, LLC	–	382	273
Fuel	2,355	2,534	1,727
Impairment of Boston Generating, LLC long-lived assets	–	945	–
Operating and maintenance	3,976	4,508	4,345
Depreciation and amortization	1,305	1,126	1,340
Taxes other than income	719	581	709
Total operating expenses	11,082	13,535	11,656
Operating income	3,433	2,277	3,299
Other income and deductions			
Interest expense	(548)	(869)	(964)
Interest expense to affiliates	(357)	(12)	(2)
Distributions on preferred securities of subsidiaries	(3)	(39)	(45)
Equity in earnings (losses) of unconsolidated affiliates	(153)	33	80
Other, net	140	(261)	304
Total other income and deductions	(921)	(1,148)	(627)
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	2,512	1,129	2,672
Income taxes	692	331	998
Income before minority interest and cumulative effect of changes in accounting principles	1,820	798	1,674
Minority interest	21	(5)	(4)
Income before cumulative effect of changes in accounting principles	1,841	793	1,670
Cumulative effect of changes in accounting principles (net of income taxes of \$17, \$69 and \$(90) in 2004, 2003 and 2002, respectively)	23	112	(230)
Net income	\$ 1,864	\$ 905	\$ 1,440
Average shares of common stock outstanding			
Basic	661	651	645
Diluted	669	657	649
Earnings per average common share – basic:			
Income before cumulative effect of changes in accounting principles	\$ 2.79	\$ 1.22	\$ 2.59
Cumulative effect of changes in accounting principles	0.03	0.17	(0.36)
Net income	\$ 2.82	\$ 1.39	\$ 2.23
Earnings per average common share – diluted:			
Income before cumulative effect of changes in accounting principles	\$ 2.75	\$ 1.21	\$ 2.57
Cumulative effect of changes in accounting principles	0.03	0.17	(0.35)
Net income	\$ 2.78	\$ 1.38	\$ 2.22
Dividends per common share	\$ 1.26	\$ 0.96	\$ 0.88

The information in the Consolidated Statements of Income shown above is a replication of the information in the Consolidated Statements of Income in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the Securities and Exchange Commission (SEC). See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Exelon Corporation
Consolidated Statements of Cash Flows

in millions	For the Years Ended December 31,		
	2004	2003	2002
Cash flows from operating activities			
Net income	\$ 1,864	\$ 905	\$ 1,440
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel	1,933	1,681	1,701
Other decommissioning-related activities	169	37	-
Cumulative effect of changes in accounting principles (net of income taxes)	(23)	(112)	230
Impairment of investments	10	309	41
Impairment of goodwill and other long-lived assets	1	990	-
Deferred income taxes and amortization of investment tax credits	202	(36)	278
Provision for uncollectible accounts	87	94	129
Equity in (earnings) losses of unconsolidated affiliates	153	(33)	(80)
(Gains) losses on sales of investments and wholly owned subsidiaries	(162)	25	(199)
Net realized (gains) losses on nuclear decommissioning trust funds	(72)	16	32
Other non-cash operating activities	(24)	18	101
Changes in assets and liabilities			
Accounts receivables	(123)	102	(357)
Inventories	(60)	(54)	(37)
Other current assets	79	(68)	45
Accounts payable, accrued expenses and other current liabilities	173	(74)	43
Income taxes	293	(271)	288
Net realized and unrealized mark-to-market and hedging transactions	49	(10)	18
Pension and non-pension postretirement benefits obligations	(270)	(144)	(165)
Other noncurrent assets and liabilities	119	9	134
Net cash flows provided by operating activities	4,398	3,384	3,642
Cash flows from investing activities			
Capital expenditures	(1,921)	(1,954)	(2,150)
Proceeds from liquidated damages	-	92	-
Proceeds from nuclear decommissioning trust fund sales	2,320	2,341	1,612
Investment in nuclear decommissioning trust funds	(2,587)	(2,564)	(1,824)
Collection of other notes receivable	59	35	(35)
Proceeds from sales of investments and wholly owned subsidiaries	329	263	287
Proceeds from sales of long-lived assets	52	10	-
Acquisitions of businesses, net of cash acquired	-	(272)	(445)
Investments in synthetic fuel-producing facilities	(56)	-	-
Change in restricted cash	55	(92)	(24)
Net cash increase from consolidation of Sithe Energies, Inc.	19	-	-
Other investing activities	(6)	32	17
Net cash flows used in investing activities	(1,736)	(2,109)	(2,562)
Cash flows from financing activities			
Issuance of long-term debt	232	3,015	1,223
Retirement of long-term debt	(1,629)	(2,922)	(2,134)
Issuance of long-term debt to financing affiliates	-	103	-
Retirement of long-term debt to financing affiliates	(728)	-	-
Change in short-term debt	164	(355)	321
Issuance of mandatorily redeemable preferred securities	-	200	-
Retirement of mandatorily redeemable preferred securities	-	(250)	(18)
Payment on acquisition note payable to Sithe Energies, Inc.	(27)	(446)	-
Retirement of preferred stock	-	(50)	-
Dividends paid on common stock	(831)	(620)	(563)
Proceeds from employee stock plans	240	181	75
Purchase of treasury stock	(82)	-	-
Contribution from minority interest of consolidated subsidiary	-	-	43
Other financing activities	34	(96)	(43)
Net cash flows used in financing activities	(2,627)	(1,240)	(1,096)
Increase (decrease) in cash and cash equivalents	35	35	(16)
Cash and cash equivalents at beginning of period	493	469	485
Cash and cash equivalents, including cash held for sale	528	504	469
Cash classified as held for sale on the consolidated balance sheet	-	11	-
Cash and cash equivalents at end of period	\$ 528	\$ 493	\$ 469

The information in the Consolidated Statements of Cash Flows shown above is a replication of the information in the Consolidated Statements of Cash Flows in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the SEC. See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Exelon Corporation
Consolidated Balance Sheets

in millions	December 31,	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 528	\$ 493
Restricted cash and investments	31	97
Accounts receivable, net		
Customer	1,649	1,567
Other	409	676
Mark-to-market derivative assets	403	337
Inventories, at average cost		
Fossil fuel	230	212
Materials and supplies	312	310
Notes receivable from affiliate	-	92
Deferred income taxes	68	122
Assets held for sale	-	242
Other	296	413
Total current assets	3,926	4,561
Property, plant and equipment, net	21,482	20,630
Deferred debits and other assets		
Regulatory assets	4,790	5,226
Nuclear decommissioning trust funds	5,262	4,721
Investments	804	955
Goodwill	4,705	4,719
Mark-to-market derivative assets	383	133
Other	1,418	991
Total deferred debits and other assets	17,362	16,745
Total assets	\$42,770	\$41,936

The information in the Consolidated Balance Sheets shown above is a replication of the information in the Consolidated Balance Sheets in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the SEC. See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Exelon Corporation
Consolidated Balance Sheets

in millions	December 31,	
	2004	2003
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper	\$ 490	\$ 326
Note payable to Sithe Energies, Inc.	-	90
Long-term debt due within one year	427	1,385
Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transitional Trust due within one year	486	470
Accounts payable	1,255	1,238
Mark-to-market derivative liabilities	598	584
Accrued expenses	1,143	1,260
Liabilities held for sale	-	61
Other	483	306
Total current liabilities	4,882	5,720
Long-term debt	7,292	7,889
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transitional Trust	4,311	5,055
Long-term debt to other financing trusts	545	545
Deferred credits and other liabilities		
Deferred income taxes	4,488	4,320
Unamortized investment tax credits	275	288
Asset retirement obligations	3,981	2,997
Pension obligations	1,993	1,668
Non-pension postretirement benefits obligations	1,065	1,053
Spent nuclear fuel obligation	878	867
Regulatory liabilities	2,204	1,891
Mark-to-market derivative liabilities	323	141
Other	981	912
Total deferred credits and other liabilities	16,188	14,137
Total liabilities	33,218	33,346
Commitments and contingencies		
Minority interest of consolidated subsidiaries	42	-
Preferred securities of subsidiaries	87	87
Shareholders' equity		
Common stock (No par value, 1,200 shares authorized, 666.7 and 656.4 shares outstanding at December 31, 2004 and 2003, respectively)	7,598	7,292
Treasury stock, at cost (2.5 shares held at December 31, 2004)	(82)	-
Retained earnings	3,353	2,320
Accumulated other comprehensive loss	(1,446)	(1,109)
Total shareholders' equity	9,423	8,503
Total liabilities and shareholders' equity	\$42,770	\$41,936

The information in the Consolidated Balance Sheets shown above is a replication of the information in the Consolidated Balance Sheets in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the SEC. See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Exelon Corporation

Consolidated Statements of Changes in Shareholders' Equity

Dollars in millions, shares in thousands	Issued Shares	Common Stock	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2001	642,014	\$6,961	\$ -	\$(2)	\$1,169	\$ (26)	\$8,102
Net income	-	-	-	-	1,440	-	1,440
Long-term incentive plan activity	4,098	87	-	-	-	-	87
Employee stock purchase plan issuances	514	11	-	-	-	-	11
Amortization of deferred compensation	-	-	-	1	-	-	1
Common stock dividends declared	-	-	-	-	(567)	-	(567)
Other comprehensive loss, net of income taxes of \$(850)	-	-	-	-	-	(1,332)	(1,332)
Balance, December 31, 2002	646,626	7,059	-	(1)	2,042	(1,358)	7,742
Net income	-	-	-	-	905	-	905
Long-term incentive plan activity	9,322	222	-	-	-	-	222
Employee stock purchase plan issuances	418	11	-	-	-	-	11
Amortization of deferred compensation	-	-	-	1	-	-	1
Common stock dividends declared	-	-	-	-	(625)	-	(625)
Redemption premium on PECO preferred stock	-	-	-	-	(2)	-	(2)
Other comprehensive income, net of income taxes of \$217	-	-	-	-	-	249	249
Balance, December 31, 2003	656,366	7,292	-	-	2,320	(1,109)	8,503
Net income	-	-	-	-	1,864	-	1,864
Long-term incentive plan activity	10,013	296	-	-	-	-	296
Employee stock purchase plan issuances	309	10	-	-	-	-	10
Common stock purchases	-	-	(82)	-	-	-	(82)
Common stock dividends declared	-	-	-	-	(831)	-	(831)
Adjustments to accumulated other comprehensive loss due to the consolidation of Sithe	-	-	-	-	-	(6)	(6)
Other comprehensive loss, net of income taxes of \$(190)	-	-	-	-	-	(331)	(331)
Balance, December 31, 2004	666,688	\$7,598	\$(82)	\$ -	\$3,353	\$(1,446)	\$9,423

The information in the Consolidated Statements of Changes in Shareholders' Equity shown above is a replication of the information in the Consolidated Statements of Changes in Shareholders' Equity in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the SEC. See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Exelon Corporation
Consolidated Statements of Comprehensive Income

In millions	For the Years Ended December 31,		
	2004	2003	2002
Net income	\$1,864	\$ 905	\$ 1,440
Other comprehensive income (loss)			
Minimum pension liability, net of income taxes of \$(228), \$16 and \$(597), respectively	(392)	26	(1,007)
SFAS No. 143 transition adjustment, net of income taxes of \$167	-	168	-
Change in net unrealized gain (loss) on cash-flow hedges, net of income taxes of \$6, \$5 and \$(129), respectively	8	9	(193)
Foreign currency translation adjustment, net of income taxes of \$1, \$0 and \$0, respectively	1	3	-
Unrealized gain (loss) on marketable securities, net of income taxes of \$31, \$29 and \$(124), respectively	52	43	(132)
Total other comprehensive income (loss)	(331)	249	(1,332)
Total comprehensive income	\$1,533	\$1,154	\$ 108

The information in the Consolidated Statements of Comprehensive Income shown above is a replication of the information in the Consolidated Statements of Comprehensive Income in Exelon's 2004 Form 10-K. For complete consolidated financial statements, including notes, please refer to pages 134 through 224 of Exelon's 2004 Form 10-K filed with the SEC. See also management's discussion and analysis of financial condition and results of operation, which includes a discussion of critical accounting policies and estimates, on pages 46 through 130 of Exelon's 2004 Form 10-K filed with the SEC.

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting. Exelon's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2004, Exelon's internal control over financial reporting was effective.

February 22, 2005

Information Derived from 2004 Form 10-K

We have presented a condensed discussion of financial results, excerpts from our consolidated financial statements and a copy of our Management's Report on Internal Control Over Financial Reporting in this summary annual report. A complete discussion of our financial results and our complete consolidated financial statements, including notes, appears on pages 46 through 224 of our Form 10-K annual report for the year ended December 31, 2004. That annual report was filed with the Securities and Exchange Commission on February 23, 2005 and can be viewed and retrieved through the Commission's web site at www.sec.gov or our web site at www.exeloncorp.com.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, issued a report dated February 22, 2005 on their integrated audit of our consolidated financial statements and our internal controls over financial reporting. In their report they expressed an unqualified opinion that those consolidated financial statements present fairly, in all material respects, the financial position of Exelon Corporation and its subsidiaries at December 31, 2004 and 2003 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. They also expressed an unqualified opinion that Exelon's assessment, included in Management's Report on Internal Controls Over Financial Reporting, that Exelon maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects. Furthermore, they expressed an unqualified opinion that Exelon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The full text of PricewaterhouseCoopers LLP's report can be found on pages 132 and 133 of our 2004 Form 10-K.

Certifications

The CEO of Exelon has made the required annual certification to the New York Stock Exchange (NYSE) that Exelon is in compliance with the NYSE's listing standards. The CEO and CFO have filed with the SEC all required certifications under section 302 of the Sarbanes-Oxley Act of 2002. These certifications are filed as Exhibits 31-1 and 31-2 to Exelon's 2004 10-K.

CORPORATE PROFILE

Exelon Corporation is one of the nation's largest electric utilities with approximately 5.2 million customers and more than \$14 billion in annual revenues. The company has one of the industry's largest portfolios of electricity generation capacity, with a nationwide reach and strong positions in the Midwest and Mid-Atlantic. Exelon distributes electricity to approximately 5.2 million customers in northern Illinois and Pennsylvania and gas to more than 460,000 customers in the Philadelphia area. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

INVESTOR AND GENERAL INFORMATION

Corporate Headquarters

Exelon Corporation
P.O. Box 805398
Chicago, IL 60680-5398

Independent Public Accountants

PricewaterhouseCoopers LLP

Website

www.exeloncorp.com

New York Stock Exchange Listing

EXC

Shareholder Inquiries

EquiServe Trust Company, N.A., is Dividend Disbursing Agent, Dividend Reinvestment Agent and Transfer Agent for all classes of Exelon Corporation Stock.

Should you have questions or requests concerning your account, payment of dividends, the dividend reinvestment plan or transfer of stock, you may call toll-free, 1.866.530.8108. You may also mail your inquiry to Exelon Corporation c/o EquiServe Trust Company, N.A., Post Office Box 43069, Providence, RI 02940-3069. If you prefer, EquiServe provides walk-in service to Exelon shareholders at One North State Street, Eleventh Floor, Chicago, Illinois.

The Company had approximately 167,000 holders of record of its common stock as of December 31, 2004.

The 2004 Form 10-K Annual Report to the Securities and Exchange Commission was filed on February 23, 2005. To obtain a copy without charge, write to Katherine K. Combs, Vice President and Corporate Secretary, Exelon Corporation, Post Office Box 805398, Chicago, Illinois 60680-5398.

The Company maintains a telephone information service, which enables shareholders to obtain currently available information on financial performance, company news and shareholder services. To use this service, please call our toll-free number, 1.866.530.8108.

Forward Looking Statements

Exelon's 2004 Annual Report to Shareholders contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein. The forward-looking statements herein include statements about benefits of the proposed merger of Exelon and PSEG, integrated plans, and expected synergies, anticipated future financial and operating performance and results of Exelon, including estimates for growth. Economic, business, competitive and/or regulatory factors affecting Exelon's businesses generally could cause actual results to differ materially from those described herein. For a discussion of the factors that could cause actual results to differ materially, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Outlook and the Challenges in Managing Our Business" in Exelon's 2004 Form 10-K, "Risk Factors" in Exelon's Registration Statement on Form S-4, Reg. No. 333-122704, and Exelon's other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Neither Exelon nor PSEG undertakes any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of the Annual Report.

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P.O. Box 805398
Chicago, IL 60680-5398
www.exeloncorp.com

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Exelon Corporation 05 Financial Information

FINANCIAL INFORMATION SUPPLEMENT

The information included within this Financial Information supplement has been taken from Exelon Corporation's Form 10-K annual report for the year ended December 31, 2004. That annual report was filed with the Securities and Exchange Commission on February 23, 2005 and can be viewed and retrieved through the Commission's web site at www.sec.gov or our web site at www.exeloncorp.com. We encourage you to consider the entire Form 10-K annual report, which contains more information about us and our subsidiaries than is presented in this supplement.

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GENERAL DESCRIPTION OF OUR BUSINESS

General

Exelon, a registered public utility holding company, through its subsidiaries, operates in three business segments—Energy Delivery, Generation and Enterprises—as described below. See Note 22 of Exelon's Notes to Consolidated Financial Statements for further segment information. In addition to Exelon's three business segments, Exelon Business Services Company (BSC), a subsidiary of Exelon, provides Exelon and its subsidiaries with financial, human resource, legal, information technology, supply management and corporate governance services.

Exelon was incorporated in Pennsylvania in February 1999. Exelon's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603, and its telephone number is 312-394-7398.

Proposed Merger with Public Service Enterprise Group Incorporated

On December 20, 2004, Exelon entered into an Agreement and Plan of Merger (Merger Agreement) with Public Service Enterprise Group Incorporated (PSEG), the holding company for an electric and gas utility company primarily located and serving customers in New Jersey, whereby PSEG will be merged with and into Exelon (Merger). Under the Merger Agreement, each share of PSEG common stock will be converted into 1.225 shares of Exelon common stock. As of December 31, 2004, PSEG's market capitalization was over \$12 billion. Additionally, PSEG, on a consolidated basis, has approximately \$14 billion of outstanding debt which is currently anticipated to become part of Exelon's consolidated debt.

The Merger Agreement contains certain termination rights for both Exelon and PSEG, and further provides that, upon termination of the Merger Agreement under specified circumstances, (i) Exelon may be required to pay PSEG a termination fee of \$400 million plus PSEG's transaction expenses up to \$40 million and (ii) PSEG may be required to pay Exelon a termination fee of \$400 million plus Exelon's transaction expenses up to \$40 million. The Merger Agreement has been unanimously approved by both companies' boards of directors but is contingent upon, among other things, the approval by shareholders of both companies, antitrust clearance and a number of regulatory approvals or reviews by federal and state energy authorities. The parties have made certain of the regulatory filings to obtain necessary regulatory approvals. It is anticipated that this approval process will be completed and the Merger will close within 12 months to 15 months after the announcement of the Merger Agreement in December 2004. Further information concerning the proposed Merger is included in the preliminary joint proxy statement/prospectus contained in the registration statement on Form S-4 filed by Exelon in connection with the Merger. For additional information related to the Merger, see Management's Discussion and Analysis of Financial Condition and Results of Operation—Executive Overview—Proposed Merger with PSEG and Note 2 of Exelon's Notes to Consolidated Financial Statements.

Energy Delivery

Exelon's energy delivery business consists of the purchase and regulated sale of electricity and distribution and transmission services by ComEd in northern Illinois, including the City of Chicago, and by PECO in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated sale of natural gas and distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia (collectively, Energy Delivery).

ComEd was organized in the State of Illinois in 1913 as a result of the merger of Cosmopolitan Electric Company into the original corporation named Commonwealth Edison Company, which was

incorporated in 1907. ComEd's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603, and its telephone number is 312-394-4321. PECO was incorporated in Pennsylvania in 1929. PECO's principal executive offices are located at 2301 Market Street, Philadelphia, Pennsylvania 19103 and its telephone number is 215-841-4000.

Generation

At December 31, 2004, Exelon's generation business consists of the owned and contracted-for electric generating facilities and energy marketing operations of Generation, a 50% interest in Sithe Energies, Inc. (Sithe), 49.5% interests in two power stations in Mexico and the competitive retail sales business of Exelon Energy Company (Exelon Energy). On January 31, 2005, Exelon purchased the remaining 50% of Sithe and immediately sold its entire interest in Sithe.

Exelon Generation Company, LLC was formed in 2000 as a Pennsylvania limited liability company. Generation began operations as a result of a corporate restructuring effective January 1, 2001 in which Exelon separated its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO. Generation's principal executive offices are located at 300 Exelon Way, Kennett Square, Pennsylvania 19348, and its telephone number is 610-765-6900.

Enterprises

Exelon's enterprises business is comprised of infrastructure and electrical contracting services of Exelon Enterprises Company, LLC (Enterprises) and other investments weighted towards the communications and energy services industries. During 2004 and 2003, Enterprises exited a significant number of businesses and investments. Exelon plans to divest or wind down the remaining assets of Enterprises during 2005.

Federal and State Regulation

Exelon, a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA), is subject to Federal and state regulation. ComEd is a public utility under the Illinois Public Utilities Act subject to regulation by the Illinois Commerce Commission (ICC). PECO is a public utility under the Pennsylvania Public Utility Code subject to regulation by the Pennsylvania Public Utility Commission (PUC). ComEd, PECO and Generation are electric utilities under the Federal Power Act subject to regulation by the Federal Energy Regulatory Commission (FERC). Specific operations of Exelon are also subject to the jurisdiction of various other Federal, state, regional and local agencies, including the United States Nuclear Regulatory Commission (NRC).

Exelon is subject to a number of restrictions under PUHCA. These restrictions generally involve financing, investments and affiliate transactions. Under PUHCA, Exelon cannot issue debt or equity securities or guarantees without approval of the United States Securities and Exchange Commission (SEC) or, in the case of ComEd and PECO, the ICC and the PUC, respectively. On April 1, 2004, Exelon obtained a new order under PUHCA authorizing, through April 15, 2007, financing transactions, including the issuance of common stock, preferred securities, equity-linked securities, long-term debt and short-term debt in an aggregate amount not to exceed \$8.0 billion above the amount outstanding for the Exelon holding company and Generation at December 31, 2003. No securities have been issued under the above described limit as of December 31, 2004. Exelon is also authorized to issue up to \$6.0 billion in guarantees or letters of credit or otherwise provide credit support with respect to the obligations of their subsidiaries and non-affiliated third parties in the normal course of business. As of December 31, 2004, Exelon had \$2.0 billion of guarantees and letters of credit outstanding pursuant to SEC authorization.

PUHCA also limits the businesses in which Exelon may engage and the investments that Exelon may make. With limited exceptions, Exelon may only engage in traditional electric and gas utility businesses and other businesses that are reasonably incidental or economically necessary or appropriate to the operations of the utility business. The exceptions include Exelon's ability to invest in exempt telecommunications companies, exempt wholesale generating businesses and foreign utility companies (these investments are capped at \$4 billion in the aggregate), energy-related companies (as defined in SEC rules and subject to a cap on these investments of 15% of Exelon's consolidated capitalization), and other businesses, subject to SEC approval. In addition, PUHCA requires that all of a registered holding company's utility subsidiaries constitute a single system that can be operated in an efficient, coordinated manner.

For additional information about restrictions on the payment of dividends and other effects of PUHCA on Exelon and its subsidiaries, see Management's Discussion and Analysis of Financial Condition and Results of Operation.

Energy Delivery

Energy Delivery consists of Exelon's regulated energy delivery operations conducted by ComEd and PECO.

ComEd is engaged principally in the purchase, transmission, distribution and sale of electricity to a diverse base of residential, commercial, industrial and wholesale customers in northern Illinois. ComEd is subject to extensive regulation by the ICC as to rates, the issuance of securities, and certain other aspects of ComEd's operations. ComEd is also subject to regulation by the FERC as to transmission rates and certain other aspects of ComEd's business.

ComEd's retail service territory has an area of approximately 11,300 square miles and an estimated population of eight million. The service territory includes the City of Chicago, an area of about 225 square miles with an estimated population of three million. ComEd has approximately 3.7 million customers.

ComEd's franchises are sufficient to permit it to engage in the business it now conducts. ComEd's franchise rights are generally nonexclusive rights documented in agreements and, in some cases, certificates of public convenience issued by the ICC. With few exceptions, the franchise rights have stated expiration dates ranging from 2005 to 2060 and subsequent years. ComEd anticipates working with the appropriate agencies to extend or replace the franchise agreements upon expiration.

PECO is engaged principally in the purchase, transmission, distribution and sale of electricity to residential, commercial and industrial customers in southeastern Pennsylvania and in the purchase, distribution and sale of natural gas to residential, commercial and industrial customers in the Pennsylvania counties surrounding Philadelphia. PECO is subject to extensive regulation by the PUC as to electric and gas rates, the issuances of certain securities and certain other aspects of PECO's operations. PECO is also subject to regulation by the FERC as to transmission rates, gas pipelines and certain other aspects of PECO's business.

PECO's retail service territory has an area of approximately 2,100 square miles and an estimated population of 3.8 million. PECO provides electric delivery service in an area of approximately 2,000 square miles, with a population of approximately 3.7 million, including 1.5 million in Philadelphia. Natural gas service is supplied in an area of approximately 1,900 square miles in southeastern Pennsylvania adjacent to Philadelphia, with a population of approximately 2.3 million. PECO delivers electricity to approximately 1.5 million customers and natural gas to approximately 460,000 customers.

PECO has the necessary authorizations to furnish regulated electric and gas service in the various municipalities or territories in which it now supplies such services. PECO's authorizations consist of charter rights and certificates of public convenience issued by the PUC and/or "grandfather rights." These rights are generally unlimited as to time and are generally exclusive from competition from other electric and gas utilities. In a few defined municipalities, PECO's gas service territory authorizations overlap with that of another gas utility but PECO does not consider those situations as posing a material competitive or financial threat.

Energy Delivery's kilowatthour (kWh) sales and load of electricity are generally higher during the summer periods and winter periods, when temperature extremes create demand for either summer cooling or winter heating. ComEd's highest peak load occurred on August 21, 2003 and was 22,054 megawatts (MWs); its highest peak load during a winter season occurred on December 22, 2004 and was 15,222 MWs. PECO's highest peak load occurred on August 14, 2002 and was 8,164 MWs; its highest peak load during a winter season occurred on December 20, 2004 and was 6,838 MWs.

PECO's gas sales are generally higher during the winter periods when temperature extremes create demand for winter heating. PECO's highest daily gas send out occurred on January 17, 2000 and was 718 million cubic feet (mmcf).

Retail Electric Services

Electric utility restructuring legislation was adopted in Pennsylvania in December 1996 and in Illinois in December 1997. Both Illinois and Pennsylvania permit competition by alternative generation suppliers for retail generation supply while transmission and distribution service remains regulated. The legislation and related regulatory orders in both states allow customers to choose an alternative electric generation supplier; required rate reductions and imposed freezes or caps on rates during a transition period following the adoption of the legislation; and allow the collection of competitive transition charges (CTCs) from customers to recover costs that might not otherwise be recovered in a competitive market (stranded costs) during the transition period.

Under Illinois and Pennsylvania legislation, ComEd and PECO are required to provide generation services to customers, except for certain large customers of ComEd, who do not or cannot choose an alternative supplier. Provider of last resort (POLR) obligations refer to the obligation of a utility to provide generation services to those customers who do not take service from an alternative generation supplier or who choose to return to the utility after taking service from an alternative supplier. Because the choice generally lies with the customer, POLR obligations make it difficult for the utility to predict and plan for the level of customers and associated energy demand.

ComEd. All of ComEd's customers are eligible to choose an alternative electric supplier and most non-residential customers can also elect the power purchase option (PPO) that allows the purchase of electric energy from ComEd at market-based prices. As of December 31, 2004, no alternative electric supplier had approval from the ICC, and no electric utilities had chosen to enter the residential market for the supply of electricity in ComEd's service territory. At December 31, 2004, approximately 22,100 non-residential customers, representing approximately 35% of ComEd's annual retail kilowatthour sales, had elected to purchase their electric energy from an alternative electric supplier or had chosen the PPO. Customers who receive energy from an alternative electric supplier and customers who have elected the PPO continue to pay a delivery charge to ComEd, which generally includes a CTC. ComEd is unable to predict the long-term impact of customer choice on its results of operations.

On November 14, 2002, the ICC allowed ComEd, by operation of law, to revise its POLR obligation to be the back-up energy supplier at market-based rates for certain customers with energy demands of at least three MWs. About 370 of ComEd's largest energy customers are affected,

representing an aggregate of approximately 2,500 MWs. These customers will not have a right to take bundled service after June 2006 or to return to bundled rates if they choose an alternative supplier prior to June 2006. On March 28, 2003, the ICC approved changes to ComEd's real-time pricing tariff for non-residential customers, including those with energy demands of at least three MWs who choose hourly energy supply for their electric power and energy. These ICC orders were affirmed on appeal.

In addition to retail competition for generation services, the Illinois legislation provided for residential base rate reductions, a sharing with customers of any earnings over a defined threshold and a base rate freeze, reflecting the residential base rate reductions, through January 1, 2007. A 15% residential base rate reduction became effective on August 1, 1998, and a further 5% residential base rate reduction became effective October 1, 2001. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois legislation, if the two-year average of the earned return on common equity of a utility through December 31, 2006 exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on a two-year average of the Monthly Treasury Bond Long-Term Average Rates (20 years and above) plus 8.5% in the years 2000 through 2006. Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with accounting principles generally accepted in the United States (GAAP) and reflect the amortization of regulatory assets. Under the Illinois statute, any impairment of goodwill has no impact on the determination of the cap on ComEd's allowed equity return during the transition period. As a result of the Illinois legislation, at December 31, 2004, ComEd had a regulatory asset related to recoverable transition costs with an unamortized balance of \$87 million, which it expects to fully recover and amortize by the end of 2006. Consistent with the provisions of the Illinois legislation, regulatory assets may be recovered in amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold. The earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. ComEd has not triggered the earnings sharing provision through 2004 and does not currently expect to trigger the earnings sharing provision in 2005 or 2006.

ComEd expects its capital expenditures will exceed depreciation on its rate base assets through at least 2005. The base rate freeze, coupled with other provisions of the Illinois restructuring law, generally precludes rate recovery of and on such incremental investments prior to January 1, 2007. Unless ComEd can offset the additional carrying costs against cost reductions, its return on investment will be reduced during the remaining period of the rate freeze and until rate increases are approved authorizing a return of and on this new investment.

The rates for the generation service provided by ComEd under bundled rates are subject to a rate freeze during the transition period ending December 31, 2006. ComEd has entered into a power purchase agreement (PPA) with Generation under which Generation has agreed to supply all of ComEd's load requirements through 2006. Prices for this energy vary depending upon the time of day and month of delivery. Subsequent to 2006, ComEd expects to procure all of its supply from market sources, which could include Generation.

The Illinois legislation also provided for the collection of a CTC from customers who choose to purchase electric energy from an alternative electric supplier or elect the PPO during the transition period which extends through 2006. The CTC is applied on a cents per kWh basis, considers the revenue that would have been collected from a customer under tariffed rates, reduced by the revenue the utility will receive for providing delivery services to the customer, the market price for electricity and a defined mitigation factor, which represents the utility's opportunity to develop new revenue sources and achieve cost reductions. The CTC allows ComEd to recover some of its costs that might otherwise be unrecoverable under market-based rates.

ComEd's market value energy credit is used to determine the price for specified market-based rate offerings and the amount of the CTC that ComEd is allowed to collect from customers who select an alternative electric supplier or the PPO. The credit was adjusted upwards through agreed upon "adders" which took effect in June 2003 and has had and will continue to have the effect of reducing ComEd's CTCs to customers. Prior to 2003, all CTCs were subject to annual mid-year adjustments based on the forward market prices for on-peak energy and historical market prices for off-peak energy. The current annual market price adjustment reflects forward, rather than historical, market prices for off-peak energy and allows customers to lock in current levels of CTCs for multi-year periods during the regulatory transition period ending in 2006. These changes provide customers and suppliers greater price certainty and have resulted in an increase in the number of customers electing to purchase energy from alternate suppliers.

In 2004 and 2003, ComEd collected \$169 million and \$304 million in CTC revenues, respectively. As a result of increasing mitigation factors, changes in energy prices and the ability of certain customers to establish fixed, multi-year CTC rates beginning in 2003, ComEd estimates that CTC revenue will amount to approximately \$90 million to \$110 million in each of the years 2005 and 2006.

The Illinois legislation provides that an electric utility, such as ComEd, will be liable for actual damages suffered by customers in the event of a continuous power outage of four hours or more affecting 30,000 or more customers and provides for reimbursement of governmental emergency and contingency expenses incurred in connection with any such outage. The legislation bars recovery of consequential damages. The legislation also allows an affected utility to seek relief from these provisions from the ICC when the utility can show that the cause of the outage was unpreventable due to weather events or conditions, customer tampering or third-party causes. During the years 2002, 2003 and 2004, ComEd did not have any outages that triggered the reimbursement requirement.

PECO. Under the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act), all of PECO's retail electric customers have the right to choose their generation suppliers. At December 31, 2004, approximately 4% of PECO's residential load, 23% of its small commercial and industrial load and 6% of its large commercial and industrial load were purchasing generation service from alternative generation suppliers. Customers who purchase energy from an alternative electric supplier continue to pay a delivery charge to PECO.

In addition to retail competition for generation services, PECO's 1998 settlement of its restructuring case mandated by the Competition Act established caps on generation and distribution rates. The 1998 settlement also authorized PECO to recover \$5.3 billion of stranded costs and to securitize up to \$4.0 billion of its stranded cost recovery, which was subsequently increased to \$5.0 billion.

Under the 1998 settlement, PECO's distribution rates were capped through June 30, 2005 at the level in effect on December 31, 1996. Generation rates, consisting of the charge for stranded cost recovery and a shopping credit or capacity and energy charge, were capped through December 31, 2010. For 2004, the generation rate cap was \$0.0698 per kWh, increasing to \$0.0751 per kWh in 2006 and \$0.0801 per kWh in 2007. The rate caps are subject to limited exceptions, including significant increases in Federal or state taxes or other significant changes in law or regulations that would not allow PECO to earn a fair rate of return. Under the settlement agreement entered into by PECO in 2000 relating to the PUC's approval of the merger among PECO, Unicom Corporation (Unicom), the former parent company of ComEd, and Exelon (PECO / Unicom Merger), PECO agreed to \$200 million in aggregate rate reductions for all customers over the period January 1, 2002 through December 31, 2005 and extended the rate cap on distribution rates through December 31, 2006. The remaining required rate reductions are \$40 million in 2005.

As a mechanism for utilities to recover their allowed stranded costs, the Competition Act provides for the imposition and collection of non-bypassable transition charges on customers' bills. Transition charges are assessed to and collected from all retail customers who have been assigned stranded cost responsibility and access the utility's transmission and distribution systems. As the transition charges are based on access to the utility's transmission and distribution system, they are assessed regardless of whether the customer purchases electricity from the utility or an alternative electric supplier. The Competition Act provides, however, that the utility's right to collect transition charges is contingent on the continued operation, at reasonable availability levels, of the assets for which the stranded costs were awarded, except where continued operation is no longer cost efficient because of the transition to a competitive market.

PECO has been authorized by the PUC to recover stranded costs of \$5.3 billion over a twelve-year period ending December 31, 2010, with a return on the unamortized balance of 10.75%. See the "Business Outlook and the Challenges Managing the Business" section of this Financial Information supplement for the estimated revenues and amortization expense associated with CTC collection and stranded cost recovery through 2010.

Under the Competition Act, licensed entities, including alternative electric suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. In that event, the alternative supplier or other third party replaces the customer as the obligor with respect to the customer's bill and PECO generally has no right to collect such receivable from the customer. Third-party billing would change PECO's customer profile (and risk of non-payment by customers) by replacing multiple customers with the entity providing third-party billing for those customers. PUC-licensed entities may also finance, install, own, maintain, calibrate and remotely read advanced meters for service to retail customers in PECO's retail electric service territory. To date, no third parties are providing billing of PECO's charges to customers or advanced metering. Only PECO can physically disconnect or reconnect a customer's distribution service.

PECO has entered into a PPA with Generation under which PECO obtains substantially all of its electric supply from Generation through 2010. Prices for this energy vary depending upon the time of day and month of delivery. Subsequent to 2010, PECO expects to procure all of its supply from market sources, which could include Generation.

In November 2004, Pennsylvania adopted Act 213, the Alternative Energy Portfolio Standards (AEPS) Act of 2004. For more information, see "Environmental Regulation—Renewable and Alternative Energy Portfolio Standards" in Exelon's 2004 Form 10-K.

Transmission Services

Energy Delivery provides wholesale and unbundled retail transmission service under rates established by the FERC. The FERC has used its regulation of transmission to encourage competition for wholesale generation services and the development of regional structures to facilitate regional wholesale markets. Under the FERC's open transmission access policy promulgated in Order No. 888, ComEd and PECO, as owners of transmission facilities, are required to provide open access to their transmission facilities under filed tariffs at cost-based rates. Under the FERC's Order No. 889, ComEd and PECO are required to comply with the FERC's Standards of Conduct regulation, as amended, governing the communication of non-public information between the transmission owner's transmission employees and wholesale merchant employees or the employees of any energy affiliate of the transmission owner. The FERC recently issued Order No. 2004, amending the Standards of Conduct regulation. The amendments do not detrimentally affect Exelon's business.

PJM Interconnection, LLC (PJM) is the independent system operator and the FERC-approved regional transmission organization (RTO) for the Mid-Atlantic and Midwest regions in which it operates. PJM is the transmission provider under, and the administrator of, the PJM Open Access Transmission Tariff (PJM Tariff), operates the PJM Interchange Energy Market and Capacity Credit Markets, and controls through central dispatch the day-to-day operations of the bulk power system of the PJM region. ComEd and PECO are members of PJM, and their transmission systems are currently under the dispatch control of PJM. Under the PJM Tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM members at rates based on the costs of transmission service.

The FERC has attempted to expand the development of regional markets, which has generated substantial opposition from some state regulators and other governmental bodies. In addition, efforts to develop an RTO have been abandoned in certain regions. Notwithstanding these difficulties, the Midwest Independent System Operator, Inc. (MISO), has been certified as an RTO by FERC. MISO is attempting to develop central generation dispatch and transmission operations across the Midwestern United States, contiguous to PJM's footprint. The FERC has ordered the elimination of rate barriers and protocol differences between MISO and PJM. Exelon supports the development of RTOs and implementation of standard market protocols, but cannot predict their success or whether they will lead to the development of the envisioned large, successful wholesale markets. The development of large competitive wholesale electricity markets would facilitate an auction to meet ComEd's and PECO's POLR load obligations with reliable wholesale electricity supply when their PPAs with Generation expire.

In November 2004, the FERC issued two orders authorizing ComEd and PECO to recover from various entities revenue representing amounts ComEd and PECO will lose as a result of the elimination of through and out (T&O) charges, for energy flowing across ComEd's and PECO's transmission systems, that were terminated pursuant to the FERC orders effective December 1, 2004. The collection of this revenue will be over a transitional period of December 1, 2004 through March 31, 2006. Several parties have sought rehearing of the FERC orders and there likely will be appeals filed in the matter after the rehearing order is issued. During 2004 prior to the termination of the T&O charges, ComEd and PECO collected net T&O charges of approximately \$50 million and \$3 million, respectively. As a result of the proceeding, ComEd may see reduced net collections and PECO may become a net payer of these charges. The ultimate outcome of this proceeding is uncertain and may have a material adverse effect on ComEd's and PECO's financial condition, results of operations or cash flows.

Certain PJM transmission owners, including ComEd and PECO, are subject to a rate design proceeding before the FERC. The issues in this proceeding involve the methodology used by PJM to charge customers for each PJM transmission owner's regulated revenue requirement associated with its electric transmission facilities. On January 31, 2005, certain PJM transmission owners, including ComEd and PECO, made two separate filings in which the transmission owners jointly proposed to retain the present modified zonal rate design applicable within PJM and to implement three separate rate options for recovery of the revenue requirement associated with their new and existing facilities. As part of the group of PJM transmission owners, both ComEd and PECO proposed to retain the present rate design through January 2008, at which time the FERC could reevaluate the continuation of the rate design in PJM. The ultimate outcome of this proceeding is uncertain and may have a material adverse effect on ComEd's and PECO's financial condition, results of operations or cash flows.

ComEd. On June 2, 2003, ComEd began receiving electric transmission reservation services from PJM and transferred control of ComEd's Open Access Same Time Information System to PJM. On April 27, 2004, the FERC issued its order approving ComEd's application to complete its integration

into PJM, subject to certain stipulations including a provision to hold certain utilities in Michigan and Wisconsin harmless from the associated impacts for ComEd to join PJM. ComEd agreed to these stipulations and transferred functional control of its transmission assets to PJM and integrated fully into PJM's energy market structures on May 1, 2004. In the fourth quarter of 2004, ComEd entered into settlement agreements with all such Michigan and Wisconsin utilities requiring a total payment of approximately \$4 million by ComEd. FERC has approved these agreements and payment is expected to be made in the first quarter of 2005.

On November 10, 2003, the FERC issued an order allowing ComEd to put into effect, subject to refund and rehearing, new transmission rates designed to reflect nearly \$500 million of infrastructure improvements made since 1998; however, because of the Illinois retail rate freeze and the method for calculating CTCs, the increase is not expected to have a significant effect on operating revenues until after December 31, 2006. During the third quarter of 2004, a settlement agreement was reached which was approved by the FERC during the fourth quarter of 2004, which established new rates that became effective May 1, 2004.

PECO. PECO provides regional transmission service pursuant to PJM's regional open-access transmission tariff. PECO and the other transmission owners in PJM have turned over control of their transmission facilities to PJM.

Gas

PECO's gas sales and gas transportation revenues are derived pursuant to rates regulated by the PUC. PECO's purchased gas cost rates, which represent a portion of total rates, are subject to quarterly adjustments designed to recover or refund the difference between the actual cost of purchased gas and the amount included in rates.

PECO's gas customers have the right to choose their gas suppliers or to purchase their gas supply from PECO at cost. Approximately 32% of PECO's current total yearly throughput is provided by gas suppliers other than PECO. Gas transportation service provided to customers by PECO remains subject to rate regulation. PECO also provides billing, metering, installation, maintenance and emergency response services.

PECO's natural gas supply is provided by purchases from a number of suppliers for terms of up to eight years. These purchases are delivered under several long-term firm transportation contracts. PECO's aggregate annual firm supply under these firm transportation contracts is 47.7 million dekatherms. Peak gas is provided by PECO's liquefied natural gas (LNG) facility and propane-air plant. PECO also has under contract 22.0 million dekatherms of underground storage through service agreements. Natural gas from underground storage represents approximately 29% of PECO's 2004-2005 heating season planned supplies.

Construction Budget

Energy Delivery's business is capital intensive and requires significant investments in energy transmission and distribution facilities, and in other internal infrastructure projects. The following table shows Exelon's most recent estimate of capital expenditures for plant additions and improvements for ComEd and PECO for 2005:

<u>(in millions)</u>	<u>ComEd</u>	<u>PECO</u>
Transmission and distribution	\$716	\$210
Gas	—	62
Other	26	9
Total	<u>\$742</u>	<u>\$281</u>

Approximately 50% of ComEd's and 65% of PECO's 2005 budgeted capital expenditures are for additions to or upgrades of existing facilities, including improvements to reliability. The remainder of the capital expenditures support customer and load growth.

Generation

Generation is one of the largest competitive electric generation companies in the United States, as measured by owned and controlled MWs. Generation combines its large generation fleet with an experienced wholesale power marketing operation and the competitive retail sales business of Exelon Energy Company.

At December 31, 2004, Generation owned generation assets with a net capacity of 25,756 MWs, including 16,751 MWs of nuclear capacity. Generation controls another 8,701 MWs of capacity through long-term contracts.

Generation's wholesale marketing unit, Power Team, a major wholesale marketer of energy, uses Generation's energy generation portfolio, transmission rights and expertise to ensure delivery of energy to Generation's wholesale customers under long-term and short-term contracts, including the load requirements of ComEd and PECO. In addition, Power Team markets energy in the wholesale bilateral and spot markets.

Exelon Energy Company became part of Generation effective as of January 1, 2004. Exelon Energy provides retail electric and gas services as an unregulated retail energy supplier in Illinois, Michigan and Ohio. Exelon Energy's business is dependent upon continued deregulation of retail electric and gas markets and its ability to obtain supplies of electricity and gas at competitive prices in the wholesale market. The low-margin nature of the business makes it important to service customers with higher volumes so as to manage costs.

Generating Resources

At December 31, 2004, the generating resources of Generation consisted of the following:

<u>Type of Capacity</u>	<u>MWs</u>
Owned generation assets ^(a)	
Nuclear	16,751
Fossil ^(b)	7,372
Hydroelectric	1,633
Owned generation assets	25,756
Long-term contracts ^(c)	8,701
TEG and TEP ^(d)	230
Total generating resources	<u>34,687</u>

- (a) See General Description of Our Business—Generation "Fuel" for sources of fuels used in electric generation.
- (b) Included 663 MWs related to directly owned generating assets of Sithe and 222 MWs related to the total capacity of the Southeast Chicago Energy Project. See Note 25 of Exelon's Notes to Consolidated Financial Statements for additional information regarding the 2005 sale of Sithe.
- (c) Contracts range from 4 to 29 years.
- (d) Generation, through its investments in Termoelectrica del Golfo (TEG) and Termoelectrica Peñoles (TEP), owns 49.5% interests in two facilities in Mexico, each with a capacity of 230 MWs.

The owned generating resources of Generation are located in the Mid-Atlantic region (approximately 45% of capacity), the Midwest region (approximately 43% of capacity), the Southern

region (approximately 10%), and the Northeast region (approximately 2% of capacity). The 8,701 MWs of capacity that Generation controls through long-term contracts are in the Midwest, Southeast and South Central regions.

In December 2003, Generation purchased British Energy plc's (British Energy) 50% interest in AmerGen Energy Company, LLC (AmerGen), making AmerGen a wholly owned subsidiary of Generation. The final purchase price was \$267 million after working capital adjustments.

On November 25, 2003, Generation, Reservoir Capital Group (Reservoir) and Sithe completed a series of transactions resulting in Generation and Reservoir each indirectly owning a 50% interest in Sithe with put and call options that could result in either party owning Sithe outright. On September 29, 2004, Generation exercised its call option and entered into an agreement to acquire Reservoir's 50% interest in Sithe and, on November 1, 2004, Generation entered into an agreement to sell Sithe to Dynegy Inc. The acquisition of Reservoir's 50% interest in Sithe and the subsequent sale of 100% of Sithe to Dynegy occurred on January 31, 2005. The sale did not include Sithe International Inc. (Sithe International), which was sold to a subsidiary of Generation on October 13, 2004. Sithe International, through its subsidiaries, has 49.5% interests in two Mexican business trusts that own the TEG and TEP power stations, two 230 MW petcoke-fired generating facilities in Tamuín, Mexico. Effective January 26, 2005, Sithe International's name was changed to Tamuin International Inc. See further discussion of these transactions in Notes 3 and 25 of Exelon's Notes to Consolidated Financial Statements.

On May 25, 2004, Exelon and Generation completed the sale, transfer and assignment of ownership of their indirect wholly owned subsidiary Boston Generating, LLC (Boston Generating), which owns the companies that own Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, to a special purpose entity owned by the lenders under Boston Generating's \$1.25 billion credit facility. Responsibility for plant operations and power marketing activities were transferred to the lenders' special purpose entity and its contractors on September 1, 2004. See Note 2 of Exelon's Notes to Consolidated Financial Statements for additional information regarding the sale of Boston Generating.

Nuclear Facilities

Generation has ownership interests in eleven nuclear generating stations currently in service, consisting of 19 units with 16,751 MW of capacity. For additional information, see ITEM 2. Properties of Exelon's 2004 Form 10-K. Generation's nuclear generating stations are operated by Generation, with the exception of the two units at the Salem Generating Station (Salem), which are operated by PSEG Nuclear, LLC, an indirect, wholly owned subsidiary of PSEG. AmerGen operates the Clinton Nuclear Power Station, Three Mile Island (TMI) Unit 1 and Oyster Creek Nuclear Generating Station facilities.

Effective January 17, 2005, through an Operating Services Contract (OSC), Generation began overseeing daily plant operations at Salem and Hope Creek nuclear generating stations. Hope Creek is a PSEG wholly owned nuclear generating station. Under the OSC, PSEG Nuclear, LLC will continue as the license holder with exclusive legal authority to operate and maintain the plants, will retain responsibility for management oversight and will have full authority with respect to the marketing of its share of the output from the facilities.

In 2004, over 67% of Generation's electric supply was generated from the nuclear generating facilities. During 2004 and 2003, the nuclear generating facilities operated by Generation operated at weighted average capacity factors of 93.5% and 93.4%, respectively.

Licenses. Generation has 40-year operating licenses from the NRC for each of its nuclear units and has received 20-year operating license renewals for the Peach Bottom Units 2 and 3, Dresden

Units 2 and 3, and the Quad Cities Units: In December 2004, the NRC issued an order that will permit Oyster Creek to operate beyond its license expiration in April 2009 if the NRC has not completed reviewing the application for renewal. The application for Oyster Creek's license renewal is expected to be filed by August 2005 in order to comply with this agreement. Generation is currently evaluating the other nuclear units for possible license renewal. The operating license renewal process takes approximately four to five years from the commencement of the project until completion of the NRC's review. The NRC review process takes approximately two years from the docketing of an application. Each requested license renewal is expected to be for 20 years beyond the current license expiration. Depreciation provisions are based on the estimated useful lives of the stations, which assume the renewal of the operating licenses for all of Generation's operating nuclear generating stations.

In 2004, Generation joined a consortium of eleven companies, NuStart Energy Development, LLC, which was formed for the purpose of seeking a license to build a new nuclear facility under the NRC's new permitting process.

The following table summarizes the current operating license expiration dates for Generation's nuclear facilities in service:

<u>Station</u>	<u>Unit</u>	<u>In-Service Date</u>	<u>Current License Expiration</u>
Braidwood	1	1988	2026
	2	1988	2027
Byron	1	1985	2024
	2	1987	2026
Clinton	1	1987	2026
Dresden	2	1970	2029
	3	1971	2031
LaSalle	1	1984	2022
	2	1984	2023
Limerick	1	1986	2024
	2	1990	2029
Oyster Creek	1	1969	2009
Peach Bottom	2	1974	2033
	3	1974	2034
Quad Cities	1	1973	2032
	2	1973	2032
Salem	1	1977	2016
	2	1981	2020
Three Mile Island	1	1974	2014

Regulation of Nuclear Power Generation. Generation is subject to the jurisdiction of the NRC with respect to the operation of its nuclear generating stations, including the licensing of operation of each station. The NRC subjects nuclear generating stations to continuing review and regulation covering, among other things, operations, maintenance, emergency planning, security and environmental and radiological aspects of those stations. The NRC may modify, suspend or revoke operating licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of such licenses. Changes in regulations by the NRC may require a substantial increase in capital expenditures for nuclear generating facilities or increased operating costs of nuclear generating units.

NRC reactor oversight results for the fourth quarter of 2004 indicate that the performance indicators for the nuclear plants operated by Generation are all in the highest performance band.

Nuclear Waste Disposal. There are no facilities for the reprocessing or permanent disposal of spent nuclear fuel (SNF) currently in operation in the United States, nor has the NRC licensed any such facilities. Generation currently stores all SNF generated by nuclear generating facilities in on-site storage pools and, in the case of Peach Bottom, Oyster Creek and Dresden, some SNF has been placed in dry cask storage facilities. Not all of Generation's SNF storage pools have sufficient storage capacity for the life of the plant. Generation is developing dry cask storage facilities, as necessary, to support operations.

As of December 31, 2004, Generation had 43,156 SNF assemblies (10,360 tons) stored on site in SNF pools or dry cask storage. On-site dry cask storage in concert with on-site storage pools will be capable of meeting all current and future SNF storage requirements at Generation's sites. The following table describes the current status of Generation's SNF storage facilities.

<u>Site</u>	<u>Date for loss of full core reserve^(a)</u>
Dresden	Dry cask storage in operation
Quad Cities ^(b)	2004
Byron	2011
LaSalle	2012
Braidwood	2013
Clinton ^(c)	2006
Peach Bottom	Dry cask storage in operation
Limerick	2009
Oyster Creek	Dry cask storage in operation
Three Mile Island	Life of plant storage capable in SNF pool
Salem	2011

(a) The date for loss of full core reserve identifies when the on-site storage pool will no longer have sufficient space to discharge a full complement of fuel from the reactor core.

(b) Dry cask storage to begin operation in 2005.

(c) A modification to the on-site storage pool is in progress to increase the amount of SNF that can be stored in the pool. This will move the date for loss of full core reserve at Clinton out to approximately 2012.

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the development of a repository for and the disposal of SNF and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from its nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation pays the DOE one mill (\$.001) per kWh of net nuclear generation for the cost of SNF disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF permanent disposal facility is 2012. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry cask storage at its Dresden, Quad Cities, Peach Bottom and Oyster Creek Stations and its consideration of dry cask storage at other stations. See Note 14 of Exelon's Notes to Consolidated Financial Statements for additional information regarding spent fuel storage claims and issues.

During the third quarter of 2004, Exelon and the U.S. Department of Justice, in close consultation with the DOE, reached a settlement of a suit originally commenced by ComEd in 1998. Under the settlement, the government will reimburse Exelon for costs associated with storage of spent fuel at Generation's nuclear stations pending DOE's fulfillment of its obligations to take possession of SNF. Under the settlement agreement, Generation received \$80 million in gross reimbursements for storage

costs already incurred (\$53 million net, after considering amounts due from Exelon to co-owners of certain nuclear stations), with additional amounts to be reimbursed annually for future costs. In all cases, reimbursements will be made only after costs are incurred and only for costs resulting from DOE delays in accepting the SNF.

The Standard Contracts with the DOE also required the payment to the DOE of a one-time fee applicable to nuclear generation through April 6, 1983. The fee related to the former PECO units has been paid. Pursuant to the Standard Contracts, ComEd previously elected to pay the one-time fee of \$277 million for its units (which are now part of Generation), with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2004, the unfunded liability for the one-time fee with interest (which has been assumed by Generation) was \$878 million. Interest accrues at the 13-week Treasury Rate, which was 1.987% at December 31, 2004. The outstanding one-time fee obligation for the Oyster Creek and TMI units remains with the former owner. The Clinton unit has no outstanding obligation.

As a by-product of their operations, nuclear generating units produce low-level radioactive waste (LLRW). LLRW is accumulated at each generating station and permanently disposed of at Federally licensed disposal facilities. The Federal Low-Level Radioactive Waste Policy Act of 1980 provides that states may enter into agreements to provide regional disposal facilities for LLRW and restrict use of those facilities to waste generated within the region. Illinois and Kentucky have entered into an agreement, although neither state currently has an operational site and none is currently expected to be operational until after 2011. Pennsylvania, which had agreed to be the host site for LLRW disposal facilities for generators located in Pennsylvania, Delaware, Maryland and West Virginia, has suspended the search for a permanent disposal site.

Generation has temporary on-site storage capacity at its nuclear generation stations for limited amounts of LLRW and has been shipping its LLRW to disposal facilities in South Carolina and Utah. The number of LLRW disposal facilities is decreasing, and Generation anticipates the possibility of continuing difficulties in disposing of LLRW. Generation is pursuing alternative disposal strategies for LLRW, including a LLRW reduction program to minimize cost impacts.

The National Energy Policy Act of 1992 requires that the owners of nuclear reactors pay for the decommissioning and decontamination of the DOE uranium enrichment facilities. The total cost to all domestic utilities covered by this requirement was originally \$150 million per year through 2006, of which Generation's share was approximately \$20 million per year. Payments are adjusted annually to reflect inflation. Including the effect of inflation, Generation paid \$26 million in 2004.

Nuclear Insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of December 31, 2004, the current limit was \$10.76 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by the Price-Anderson Act, Generation carries the maximum available amount of nuclear liability insurance (currently \$300 million for each operating site) and the remaining \$10.46 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed a maximum charge per reactor per incident. The maximum assessment for all nuclear operators per reactor per incident (including a 5% surcharge) is \$100.6 million, 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 Price-Anderson Act expired on August 1, 2002 and was subsequently extended to the end of 2003 by the U.S. Congress. Only facilities applying for NRC licenses subsequent to the expiration of the Price-Anderson Act are affected by the expiration of the Price-Anderson Act. Existing commercial

generating facilities, such as those owned and operated by Generation, remain subject to the provisions of the Price-Anderson Act and are unaffected by its expiration. However, new licenses are not covered under the Price-Anderson Act and any new plant initiatives would need to address this exposure.

See "Nuclear Insurance" within Note 16 of Generation's Notes to Consolidated Financial Statements for a description of nuclear-related insurance coverage.

For information regarding property insurance, see ITEM 2. Properties—Generation of Exelon's 2004 Form 10-K. Generation 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 Generation's financial condition and results of operations.

Decommissioning. NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in certain minimum amounts at the end of the life of the facility to decommission the facility. As more fully described below, both ComEd and PECO are currently collecting amounts from ratepayers, which are ultimately remitted to the trust funds maintained by Generation that will be used to decommission nuclear facilities. The AmerGen facilities are not covered by the ComEd, PECO or any other rate recovery of decommissioning funding from customers. Decommissioning expenditures are expected to occur primarily after the plants are retired. Based on current operating licenses and anticipated license renewals, decommissioning expenditures for plants in operation are currently estimated to begin in 2029.

In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the PPA between ComEd and Generation. Under the ICC order, ComEd was permitted to recover \$73 million per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd is permitted to recover up to \$73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Generation. Because ComEd is not expected to take all of the output of these stations, actual collections are expected to be less than \$73 million annually in 2005 and 2006. Under the ICC order, subsequent to 2006, there will be no further recoveries though rates of decommissioning costs from ComEd's customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to ComEd's customers. The ICC order has been upheld on appeal.

Nuclear decommissioning costs associated with the nuclear generating stations formerly owned by PECO continue to be recovered currently through rates charged by PECO to customers. Amounts recovered, currently \$33 million per year, are remitted to Generation as allowed by the PUC.

Generation believes that the amounts currently being collected from ComEd and PECO, coupled with Generation's nuclear decommissioning trust funds and the expected investment earnings thereon will be sufficient to fully fund Generation's decommissioning obligations. AmerGen maintains decommissioning trust funds for each of its plants in accordance with NRC regulations. Generation believes that amounts in these trust funds, including expected investment earnings thereon, will be sufficient to fully fund AmerGen's decommissioning obligations.

See Critical Accounting Policies and Estimates within Management's Discussion and Analysis of Financial Condition and Results of Operation for a further discussion of nuclear decommissioning.

Zion, a two-unit nuclear generation station, Peach Bottom Unit 1 and Dresden Unit 1 have permanently ceased power generation. SNF at Zion and Dresden Unit 1 is currently being stored in on-site storage pools and dry cask storage, respectively, until a permanent repository under the NWPA is completed. All of Peach Bottom Unit 1's SNF has been moved off site. Generation has recorded a liability totaling \$762 million at December 31, 2004, which represents the estimated cost of decommissioning Zion, Peach Bottom Unit 1 and Dresden Unit 1 in current year dollars. Certain decommissioning costs are currently being incurred; however, the majority of decommissioning expenditures are expected to occur primarily after 2013, 2033 and 2030 for Zion, Peach Bottom Unit 1 and Dresden Unit 1, respectively.

Fossil and Hydroelectric Facilities

Generation operates various fossil and hydroelectric facilities and maintains ownership interest in several other facilities such as La Porte, Keystone, Conemaugh and Wyman, which are operated by third parties. In 2004, approximately 8% of Generation's electric supply was generated from Generation's owned fossil and hydroelectric generating facilities. The majority of this output was dispatched to support Generation's power marketing activities. For additional information regarding Generation's electric generating facilities, see ITEM 2. Properties—Generation of Exelon's 2004 Form 10-K.

Licenses. Fossil generation plants are generally not licensed and, therefore, the decision on when to retire plants is, fundamentally, a commercial one. Hydroelectric plants are licensed by the FERC. The Muddy Run and Conowingo facilities have licenses that expire in September 2014. Generation is considering applying to the FERC for license renewals of 40 years for the Muddy Run and Conowingo plants, but the duration of any license renewal will depend on then-current policies at the FERC. The processing of a renewal to a hydroelectric license generally takes at least eight years.

Insurance. Generation does not purchase business interruption insurance for its wholly owned fossil and hydroelectric operations. For its other types of insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon and Generation's financial condition and their results of operations and cash flows. For information regarding property insurance, see ITEM 2. Properties—Generation of Exelon's 2004 Form 10-K.

Long-Term Contracts

In addition to energy produced by owned generation assets, Generation sells electricity purchased under the long-term contracts described below:

<u>Seller</u>	<u>Location</u>	<u>Expiration</u>	<u>Capacity (MWs)</u>
Kincaid Generation, LLC	Kincaid, Illinois	2013	1,108
Tenaska Georgia Partners, LP	Franklin, Georgia	2030	925
Tenaska Frontier, Ltd	Shiro, Texas	2020	830
Green Country Energy, LLC	Jenks, Oklahoma	2022	795
Elwood Energy, LLC	Elwood, Illinois	2012	772
Lincoln Generating Facility, LLC	Manhattan, Illinois	2011	664
Reliant Energy Aurora, LP	Aurora, Illinois	2008	600
Others	Various	2005 to 2021	<u>3,007</u>
Total			<u><u>8,701</u></u>

Federal Power Act

The Federal Power Act gives the FERC exclusive rate-making jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce. Pursuant to the Federal Power Act, all public utilities subject to the FERC's jurisdiction are required to file rate schedules with the FERC with respect to wholesale sales and transmission of electricity. Transmission tariffs established under FERC regulation give Generation access to transmission lines that enable it to participate in competitive wholesale markets.

Because Generation sells power in the wholesale markets, Generation is a public utility for purposes of the Federal Power Act and is required to obtain the FERC's acceptance of the rate schedules for wholesale sales of electricity. In 2000, Generation received authorization from the FERC to sell power at market-based rates. As is customary with market-based rate schedules, the FERC reserved the right to suspend market-based rate authority on a retroactive basis if it subsequently determined that Generation or any of its affiliates exercised or has the ability to exercise market power. The FERC is also authorized to order refunds if it finds that the market-based rates are not just and reasonable.

In December 1999, the FERC issued Order No. 2000 to encourage the voluntary formation of RTOs which would provide transmission service across multiple transmission systems. The intended benefits of establishing these entities includes the development of larger wholesale markets and the elimination or reduction of transmission charges imposed by successive transmission systems when wholesale generators cross several transmission systems to deliver capacity. Order No. 2000 and the FERC's effort to promote RTOs throughout the states have generated substantial opposition by some state regulators and other governmental bodies. In addition, efforts to develop a RTO have been abandoned in certain regions.

PJM has been approved as a RTO, as has the Midwest ISO. ISO New England, the system operator for New England where Generation also owns facilities, was approved as a RTO on February 2, 2005.

Exelon supports the development of RTOs and implementation of standard market protocols but cannot predict their success or whether they will lead to the development of the envisioned large, successful wholesale markets. The FERC issued a final rule establishing standardized generator interconnection policies and procedures. Under this interconnection policy generators will benefit from not having to deal on a case-by-case basis with different and sometimes inconsistent requirements of different transmission providers.

The FERC recently announced new market power tests for suppliers to qualify to sell power at market-based rates. These new tests, the market share test and the pivotal supplier test, must both be passed by Generation, or market power mitigation must be imposed for Generation to continue to make sales of capacity and energy in the wholesale market at market based rates. Generation filed its analysis of the application of the tests on September 27, 2004, which proposed that Generation passed the market power screens. The FERC allows the relevant geographic market to include a RTO's footprint, and Generation used an expanded PJM footprint as the relevant market. Because ComEd and PECO, which purchase most of Generation's power, are members of PJM, Generation, for the most part, is selling into the PJM market. On January 5, 2005, the FERC issued a deficiency letter to Generation requesting a response to twelve separate questions relating to Generation's filing. On January 26, 2005, Generation filed an initial response to the deficiency letter, answering certain questions and requesting until February 14, 2005 to complete the response to the deficiency letter. The FERC continues to process Generation's application and market power analysis, as well as other applicants' filings. Management expects that Generation will eventually pass the market power

screens; however, there is no certainty as to what final determination will be made by the FERC in regard to Generation's filing and the filings of other applicants.

Currently, a significant portion of Generation's capacity is located within the PJM RTO area. If the FERC were to suspend Generation's market-based rate authority, Generation would be required to supply and implement a plan for mitigation of market power. FERC's default mitigation would require Generation to file and obtain FERC acceptance of cost-based rate schedules or schedules tied to a public index. In addition, the loss of market-based rate authority would subject Generation to the accounting, record-keeping and reporting requirements that are imposed on public utilities with cost-based rate schedules.

Fuel

The following table shows sources of electric supply in gigawatthours (GWhs) for 2004 and estimated for 2005:

	Source of Electric Supply	
	2004	2005 (Est.)
Nuclear units	136,621	137,870
Purchases—non-trading portfolio	48,968	44,479
Fossil and hydroelectric units	17,010	21,325
Total supply	<u>202,599</u>	<u>203,674</u>

The fuel costs for nuclear generation are substantially less than for fossil-fuel generation. Consequently, nuclear generation is generally the most cost-effective way for Generation to meet its commitment to supply the requirements of ComEd and PECO, some of Exelon Energy's requirements, and for sales to other utilities.

The cycle of production and utilization of nuclear fuel includes the mining and milling of uranium ore into uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, the enrichment of the uranium hexafluoride and the fabrication of fuel assemblies. Generation has uranium concentrate inventory and supply contracts sufficient to meet all of its uranium concentrate requirements through 2007. Generation's contracted conversion services are sufficient to meet all of its uranium conversion requirements through 2007. All of Generation's enrichment requirements have been contracted through 2007. Contracts for fuel fabrication have been obtained through 2007. Generation does not anticipate difficulty in obtaining the necessary uranium concentrates or conversion, enrichment or fabrication services for its nuclear units.

Generation obtains approximately 25% of its uranium enrichment services from European suppliers. There is an ongoing trade action by USEC, Inc. alleging dumping in the United States against European enrichment services suppliers. In January 2002, the U.S. International Trade Commission determined that USEC, Inc. was "materially injured or threatened with material injury" by low-enriched uranium exported by European suppliers. The U.S. Department of Commerce has assessed countervailing and anti-dumping duties against the European suppliers. Both USEC, Inc. and the European suppliers have appealed these decisions. Generation is uncertain at this time as to the outcome of the pending appeals; however, as a result of these actions, Generation may incur higher costs for uranium enrichment services necessary for the production of nuclear fuel.

Coal is obtained for coal-fired plants primarily through annual contracts with the remainder supplied through either short-term contracts or spot-market purchases.

Natural gas requirements for operating stations are procured through annual, monthly and spot-market purchases. Some fossil generation stations can use either oil or gas as fuel. Fuel oil inventories are managed so that in the winter months sufficient volumes of fuel are available in the event of extreme weather conditions and during the remaining months to take advantage of favorable market pricing.

Generation uses financial instruments to mitigate price risk associated with commodity price exposures. Generation also hedges forward price risk with both over-the-counter and exchange-traded instruments.

Power Team

Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long-, intermediate- and short-term contracts. Generation seeks to maintain a net positive supply of energy and capacity, through ownership of 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. Generation has also contracted for access to additional generation through bilateral long-term PPAs. These agreements are commitments related to power generation of specific generation plants and/or are dispatchable in nature similar to asset ownership. Generation enters into PPAs with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to customers. Power Team may buy power to meet the energy demand of its customers, including Energy Delivery. These purchases may be made for more than the energy demanded by Power Team's customers. Power Team then sells this open position, along with capacity not used to meet customer demand, in the wholesale energy market. Generation has also purchased transmission service to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs.

Power Team also manages the price and supply risks for energy and fuel associated with generation assets and the risks of power marketing activities. The maximum length of time over which cash flows related to energy commodities are currently being hedged is three years. Generation's hedge ratio in 2005 for its energy marketing portfolio is approximately 90%. This hedge ratio represents the percentage of forecasted aggregate annual generation supply that is committed to firm sales, including sales to Energy Delivery's retail load. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand and volatility. During peak periods, the amount hedged declines to assure Generation's commitment to meet Energy Delivery's demand, for which the peak demand is during the summer. For the portion of generation supply that is unhedged, fluctuations in market price of energy will cause volatility in Generation's results of operations.

Power Team also uses financial and commodity contracts for proprietary trading purposes but this activity accounts for only a small portion of Power Team's efforts. The trading portfolio is subject to a risk management policy that includes stringent risk management limits including volume, stop-loss and value-at-risk limits to manage exposure to market risk. Additionally, the corporate risk management group and Exelon's Risk Management Committee (RMC) monitor the financial risks of the power marketing activities.

At December 31, 2004, Generation's long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from and to unaffiliated utilities and others were as follows:

<u>(in millions)</u>	<u>Net Capacity Purchases ^(a)</u>	<u>Power Only Sales</u>	<u>Power Only Purchases from Non-Affiliates</u>	<u>Transmission Rights Purchases ^(b)</u>
2005	\$ 578	\$2,551	\$1,446	\$ 31
2006	581	961	605	3
2007	533	167	254	—
2008	462	9	195	—
2009	437	9	194	—
Thereafter	3,664	343	548	—
Total ^(c)	<u>\$6,255</u>	<u>\$4,040</u>	<u>\$3,242</u>	<u>\$ 34</u>

(a) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2004. Expected payments include certain capacity charges which are conditional on plant availability.

(b) Transmission rights purchases include estimated commitments in 2005 and 2006 for additional transmission rights that will be required to fulfill firm sales contracts.

(c) Included in the totals are \$395 million of power only sales commitments related to Sithe, which were not retained by Generation following the sale of Sithe. See Note 3 and Note 25 of Exelon's Notes to Consolidated Financial Statements for further discussion of these transactions.

In connection with the 2001 corporate restructuring, Generation entered into a PPA, as amended, with ComEd under which Generation has agreed to supply all of ComEd's load requirements through 2006. Under the ComEd PPA, prices for energy vary depending upon the time of day and month of delivery. Subsequent to 2006, ComEd expects to procure all of its supply from market sources, which could include Generation. Additionally, Generation has a PPA with PECO under which Generation has agreed to supply PECO with substantially all of PECO's electric supply needs through 2010. PECO has also assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources. Subsequent to 2010, PECO expects to procure all of its supply from market sources, which could include Generation.

When AmerGen acquired Clinton Nuclear Power Station (Clinton), AmerGen entered into a power sales agreement with the seller, Illinois Power Company (Illinois Power). The agreement with Illinois Power was for 68.8% of Clinton's output for a term that expired on December 31, 2004. Generation has subsequently entered into a separate agreement with Illinois Power to provide fixed quantities of power under a power sales agreement over future periods beginning January 1, 2005. This agreement is included in the commitment table presented above.

Capital Expenditures

Generation's business is capital intensive and requires significant investments in energy generation and in other internal infrastructure projects. Generation's estimated capital expenditures for 2005 are as follows:

<u>(in millions)</u>	
Production plant	\$ 575
Nuclear fuel	498
Total	<u>\$1,073</u>

Enterprises

During 2004 and 2003, Enterprises exited a significant number of businesses and investments, as described below. As of December 31, 2004, Enterprises consisted primarily of the remaining electrical contracting business of F&M Holdings, LLC. Enterprises is continuing to pursue opportunities to sell its remaining businesses.

Exelon Energy Company. Effective January 1, 2004, Enterprises competitive retail sales business, Exelon Energy Company, was transferred to Generation.

InfraSource, Inc. On September 24, 2003, Enterprises sold the electric construction and services, underground and telecom businesses of InfraSource, Inc. for cash proceeds of approximately \$175 million, net of transaction costs and cash transferred to the buyer upon sale plus a \$30 million subordinated note. Enterprises recorded a net pre-tax loss and minority interest of \$4 million associated with the sale and goodwill impairment charge in 2003.

Exelon Services, Inc. During 2004, Enterprises disposed of or wound down all of the operating businesses of Exelon Services, Inc. (Exelon Services), including Exelon Solutions, the mechanical services businesses and the Integrated Technology Group. Total expected proceeds and the pre-tax net gain on sale recorded in 2004 related to the disposition of the Exelon Services businesses were \$61 million and \$9 million, respectively.

Exelon Thermal Holdings, Inc. On June 30, 2004, Enterprises sold its Chicago businesses of Exelon Thermal Holdings, Inc. (Thermal) for net cash proceeds of \$134 million and expected proceeds of \$2 million from a working capital settlement, resulting in a pre-tax gain of \$36 million, net of debt prepayment penalties. On September 29, 2004, Enterprises closed on the sale of ETT Nevada, Inc., the holding company for its investment in Northwind Aladdin, LLC, for a net cash outflow of \$1 million, subject to working capital adjustments. Enterprises recorded a pre-tax loss of \$3 million related to the disposition. On October 28, 2004, Northwind Windsor, of which Enterprises owns a 50% interest, sold substantially all of its assets, providing Enterprises with cash proceeds of \$8 million, resulting in a pre-tax gain of \$2 million.

PECO TelCove. On June 30, 2004, Enterprises sold its investment in PECO TelCove, a communications joint venture, along with certain telecommunications assets, for proceeds of \$49 million, resulting in a pre-tax gain of \$9 million.

Exelon Capital Partners Holdings, LLC. During 2004, Enterprises sold its direct investments and investments in three of its four venture capital funds.

(Dollars in million except per share data, unless otherwise noted)

MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Exelon's common stock is listed on the New York Stock Exchange. See Note 24 of Exelon's Notes to Consolidated Financial Statements for the high and low sales prices, closing prices and dividends for Exelon's common stock for 2004 and 2003 on a per share basis. As of January 31, 2005, there were 664,807,122 shares of common stock outstanding and approximately 166,575 shareholders of common stock of record.

On January 27, 2004, the Exelon Board of Directors approved a 2-for-1 stock split of Exelon's common stock. The distribution date was May 5, 2004. The authorized common stock was increased from 600,000,000 shares with no par value to 1,200,000,000 shares with no par value. The share and per-share amounts related to Exelon included in this Financial Information supplement have been adjusted for all periods presented to reflect the stock split.

Dividends

Under applicable Federal law, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at ComEd, PECO or Generation may limit the dividends that these companies can distribute to Exelon.

Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, "[its] earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless it has specific authorization from the ICC. At December 31, 2004, Exelon had retained earnings of \$3.3 billion, which includes ComEd's retained earnings of \$1,102 million (all of which had been appropriated for future dividends), PECO's retained earnings of \$607 million and Generation's undistributed earnings of \$761 million.

The following table sets forth Exelon's quarterly cash dividends paid during 2004 and 2003:

	2004				2003			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
(per share)								
Exelon	\$0.400	\$0.305	\$0.275	\$0.275	\$0.250	\$0.250	\$0.230	\$0.230

The following table sets forth ComEd's and PECO's quarterly common dividend payments and Generation's quarterly distributions:

	2004				2003			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
(in millions)								
ComEd	\$137	\$113	\$104	\$103	\$95	\$95	\$90	\$121
PECO	115	96	90	90	79	79	75	90
Generation	335	61	55	54	73	71	45	—

On January 27, 2004, the Exelon Board of Directors declared a quarterly dividend of \$0.275 per share on Exelon's common stock. On July 27, 2004, the Exelon Board of Directors declared a quarterly dividend of \$0.305 per share on Exelon's common stock and approved a policy of targeting a dividend payout ratio of 50 to 60% of ongoing earnings and authorized a plan to achieve that level of payout for the full year of 2005. The actual dividend payout rate depends on Exelon achieving its objectives, including meeting cash flow targets and strengthening its balance sheet. On October 19, 2004 and January 25, 2005, the Exelon Board of Directors approved quarterly dividends of \$0.40 per share, reflecting an annual dividend of \$1.60 per share. The Board of Directors must approve the dividends each quarter after review of Exelon's financial condition at that time.

The Merger Agreement between Exelon and PSEG provides that, subject to applicable law and the fiduciary duties of its board of directors, Exelon will increase its quarterly dividend so that the first dividend paid after completion of the Merger is an amount equal, on an exchange ratio adjusted basis, to the dividend PSEG shareholders received in the quarter immediately prior to completion of the Merger, up to a maximum of \$0.47 per share of Exelon common stock (the lesser of \$0.47 and the amount required to equal PSEG's dividend on an exchange ratio adjusted basis being referred to as the threshold amount (threshold amount)). Exelon has agreed that as close to 30 days prior to the anticipated closing of the Merger as reasonably practicable, it will notify PSEG of what it believes its first quarterly dividend following completion of the Merger will be. If that dividend is less than the threshold amount, PSEG may make a one time special cash dividend to its shareholders equal to the amount of the difference between the dividend Exelon has informed PSEG it will pay and the threshold amount on an exchange ratio adjusted basis.

ComEd may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities which were issued to ComEd Financing II and ComEd Financing III (the Financing Trusts); (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of the Financing Trusts; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued (see ITEM 1. Business—Other Subsidiaries of ComEd and PECO with Publicly Held Securities of Exelon's 2004 Form 10-K). As of December 31, 2004, ComEd had appropriated \$1,102 million of retained earnings for future dividend payments.

PECO's Articles of Incorporation prohibit payment of any dividend on, or other distribution to the holders of, common stock if, after giving effect thereto, the capital of PECO represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then outstanding preferred stock. At December 31, 2004, such capital was \$2.8 billion and amounted to about 32 times the liquidating value of the outstanding preferred stock of \$87 million.

PECO may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debentures which were issued to PEC L.P. or PECO Trust IV; (2) it defaults on its guarantee of the payment of distributions on the Series D Preferred Securities of PEC L.P. or the preferred trust securities of PECO Trust IV; or (3) an event of default occurs under the Indenture under which the subordinated debentures are issued (see ITEM 1. Business—Other Subsidiaries of ComEd and PECO with Publicly Held Securities of Exelon's 2004 Form 10-K).

SELECTED FINANCIAL DATA

The selected financial data presented below has been derived from the audited consolidated financial statements of Exelon. This data is qualified in its entirety by reference to and should be read in conjunction with Exelon's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operation included in this Financial Information supplement.

Results for 2000 reflect the effects of the merger of Exelon Corporation, Unicom and PECO on October 20, 2000. That merger was accounted for using the purchase method of accounting with PECO as the acquiring company. Accordingly, financial results for 2000 consist of PECO's results for 2000 and Unicom's results after October 20, 2000.

<u>in millions, except for per share data</u>	<u>For the Years Ended December 31,</u>				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Statement of Income data:					
Operating revenues	\$14,515	\$15,812	\$14,955	\$14,918	\$7,499
Operating income	3,433	2,277	3,299	3,362	1,527
Income before cumulative effect of changes in accounting principles	\$ 1,841	\$ 793	\$ 1,670	\$ 1,416	\$ 562
Cumulative effect of changes in accounting principles (net of income taxes)	23	112	(230)	12	24
Net income	<u>\$ 1,864</u>	<u>\$ 905</u>	<u>\$ 1,440</u>	<u>\$ 1,428</u>	<u>\$ 586</u>
Earnings per average common share (diluted):					
Income before cumulative effect of changes in accounting principles	\$ 2.75	\$ 1.21	\$ 2.57	\$ 2.19	\$ 1.38
Cumulative effect of changes in accounting principles (net of income taxes)	0.03	0.17	(0.35)	0.02	0.06
Net income	<u>\$ 2.78</u>	<u>\$ 1.38</u>	<u>\$ 2.22</u>	<u>\$ 2.21</u>	<u>\$ 1.44</u>
Dividends per common share	<u>\$ 1.26</u>	<u>\$ 0.96</u>	<u>\$ 0.88</u>	<u>\$ 0.91</u>	<u>\$ 0.46</u>
Average shares of common stock outstanding— diluted	<u>669</u>	<u>657</u>	<u>649</u>	<u>645</u>	<u>408</u>

in millions	December 31,				
	2004	2003	2002	2001	2000
Balance Sheet data:					
Current assets	\$ 3,926	\$ 4,561	\$ 4,125	\$ 3,735	\$ 4,151
Property, plant and equipment, net	21,482	20,630	17,957	14,665	15,914
Noncurrent regulatory assets	4,790	5,226	5,546	5,774	6,045
Goodwill	4,705	4,719	4,992	5,335	5,186
Other deferred debits and other assets	7,867	6,800	5,249	5,460	5,378
Total assets	\$42,770	\$41,936	\$37,869	\$34,969	\$36,674
Current liabilities	\$ 4,882	\$ 5,720	\$ 5,874	\$ 4,370	\$ 4,993
Long-term debt, including long-term debt to financing trusts ^(a)	12,148	13,489	13,127	12,879	12,958
Regulatory liabilities	2,204	1,891	486	225	1,888
Other deferred credits and other liabilities	13,984	12,246	9,968	8,749	8,959
Minority interest	42	—	77	31	31
Preferred securities of subsidiaries ^(a)	87	87	595	613	630
Shareholders' equity	9,423	8,503	7,742	8,102	7,215
Total liabilities and shareholders' equity	\$42,770	\$41,936	\$37,869	\$34,969	\$36,674

(a) The mandatorily redeemable preferred securities of ComEd and PECO were reclassified as long-term debt to financing trusts in 2003 in accordance with FIN 46-R and FIN 46, "Consolidation of Variable Interest Entities" (FIN 46).

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

Exelon, ComEd, PECO and Generation

The Critical Accounting Policies and Estimates and New Accounting Pronouncement sections presented below indicate the registrant or registrants to which each policy, estimate or accounting standard is applicable.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the amounts of assets and liabilities reported in the financial statements. Management discusses these policies, estimates and assumptions within its Accounting and Disclosure Governance Committee on a regular basis and provides periodic updates on management decisions to the Audit Committee of the Exelon Board of Directors. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Further discussion of the application of these accounting policies can be found in the Registrants' Notes to Consolidated Financial Statements.

Asset Retirement Obligations (Exelon, ComEd, PECO and Generation)

Nuclear Decommissioning (Exelon and Generation)

Generation must make significant estimates and assumptions in accounting for its obligation to decommission its nuclear generating plants in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143).

SFAS No. 143 requires that Generation estimate the fair value of its obligation for the future decommissioning of its nuclear generating plants. To estimate that fair value, Generation uses a probability-weighted, discounted cash flow model considering multiple outcome scenarios based upon significant assumptions embedded in the following:

Decommissioning Cost Studies. Generation uses decommissioning cost studies prepared by a third party to provide a marketplace assessment of costs and the timing of decommissioning activities validated by comparison to current decommissioning projects and other third-party estimates.

Cost Escalation Studies. Cost escalation studies are used to determine escalation factors and are based on inflation indices for labor, equipment and materials, energy and low-level radioactive waste disposal costs.

Probabilistic Cash Flow Models. Generation's probabilistic cash flow models include the assignment of probabilities to various cost levels and various timing scenarios. The probability of various timing scenarios incorporate the factors of current license lives, anticipated license renewals and the timing of DOE acceptance for disposal of spent nuclear fuel.

Discount Rates. The probability-weighted estimated cash flows using these various scenarios are discounted using credit-adjusted, risk-free rates applicable to the various businesses.

Changes in the assumptions underlying the foregoing items could materially affect the decommissioning obligation recorded and could affect future updates to the decommissioning obligation to be recorded in the consolidated financial statements. For example, the 20-year average cost escalation rates used in the current ARO calculation approximate 3% to 4%. A uniform increase in these escalation rates of 25 basis points would increase the total ARO recorded by Exelon by

approximately 11% or more than \$400 million. Under SFAS No. 143, the nuclear decommissioning obligation is adjusted on an ongoing basis due to the passage of time and revisions to either the timing or amount of the original estimate of undiscounted cash flows. For more information regarding the adoption and ongoing application of SFAS No. 143, see Note 1 and Note 14 of Exelon's Notes to Consolidated Financial Statements.

Other Asset Retirement Obligations (Exelon, ComEd, PECO and Generation)

The FASB has issued an exposure draft of proposed interpretations of SFAS No. 143. The exposure draft addresses the accounting for conditional asset retirement obligations. The proposed guidance is not anticipated to have any impact on Generation's asset retirement obligations for nuclear decommissioning but may result in the recording of liabilities at Exelon, ComEd, PECO and Generation for conditional legal obligations meeting the scope of the interpretation.

Asset Impairments (Exelon, ComEd, PECO and Generation)

Goodwill (Exelon and ComEd)

Exelon and ComEd had approximately \$4.7 billion of goodwill recorded at December 31, 2004, which relates entirely to the goodwill recorded upon the acquisition of ComEd. Exelon and ComEd perform assessments for impairment of their goodwill at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. Application of the goodwill impairment test requires management's judgments, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit.

Exelon and ComEd performed their annual assessments of goodwill impairment as of November 1, 2004 and determined that goodwill was not impaired. Exelon assesses goodwill impairment at its Energy Delivery reporting unit; accordingly, a goodwill impairment charge at ComEd may not necessarily affect Exelon's results of operations as the goodwill impairment test for Exelon considers the cash flows of the entire consolidated Energy Delivery business segment, which includes both ComEd and PECO.

In the assessments, Exelon and ComEd estimated the fair value of the Energy Delivery and ComEd reporting units using a probability-weighted, discounted cash flow model with multiple scenarios. The fair value determination is dependent on many sensitive, interrelated and uncertain variables, including changing interest rates, utility sector market performance, the capital structures of Energy Delivery and ComEd, market prices for power, post-2006 rate regulatory structures, operating and capital expenditure requirements, and other factors. Changes in assumptions regarding these variables or in the assessment of how they interrelate could produce a different impairment result, which could be material. For example, a hypothetical decrease of approximately 10% in Energy Delivery's and ComEd's expected discounted cash flows would result in no impairment at Exelon, but an estimated impairment of goodwill of approximately \$1.7 billion at ComEd.

Long-Lived Assets (Exelon, ComEd, PECO and Generation)

Exelon, ComEd, PECO and Generation evaluate the carrying value of their long-lived assets, excluding goodwill, when circumstances indicate the carrying value of those assets may not be recoverable. The review of long-lived assets for impairment requires significant assumptions about operating strategies and estimates of future cash flows, which require assessments of current and projected market conditions. For the generation business, forecasting future cash flows requires assumptions regarding forecasted commodity prices for the sale of power and costs of fuel. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

Investments (Exelon, ComEd, PECO and Generation)

Exelon, ComEd, PECO and Generation had approximately \$6,066 million, \$91 million, \$109 million and \$5,365 million, respectively, of investments, including investments held in nuclear decommissioning trust funds, recorded as of December 31, 2004. Exelon, ComEd, PECO and Generation consider investments to be impaired when a decline in fair value below cost is judged to be other-than-temporary. If the cost of an investment exceeds its fair value, they evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as their intent and ability to hold the investment. The Registrants also consider specific adverse conditions related to the financial health of and business outlook for the investee.

Defined Benefit Pension and Other Postretirement Welfare Benefits (Exelon, ComEd, PECO and Generation)

Exelon sponsors defined benefit pension plans and postretirement welfare benefit plans applicable to essentially all ComEd, PECO, Generation and BSC employees and certain Enterprises employees. See Note 15 of Exelon's Notes to Consolidated Financial Statements for further information regarding the accounting for Exelon's defined benefit pension plans and postretirement welfare benefit plans.

The costs of providing benefits under these plans are dependent on historical information such as employee age, length of service and level of compensation, and the actual rate of return on plan assets. Also, Exelon utilizes assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, rate of compensation increases and the anticipated rate of increase in health care costs.

The selection of key actuarial assumptions utilized in the measurement of the plan obligations and costs drives the results of the analysis and the resulting charges. The long-term expected rate of return on plan assets (EROA) assumption used in calculating pension cost was 9.00% in 2004 and 2003 compared to 9.50% for 2002. The weighted average EROA assumption used in calculating other postretirement benefit costs ranged from 8.33% to 8.35% in 2004 compared to 8.40% in 2003 and 8.80% for 2002. A lower EROA is used in the calculation of other postretirement benefit costs, as the other postretirement benefit trust activity is partially taxable while the pension trust activity is non-taxable. The Moody's Aa Corporate Bond Index was used as the basis in selecting the discount rate for determining the plan obligations, using 5.75%, 6.25% and 6.75% at December 31, 2004, 2003 and 2002, respectively. The reduction in the discount rate is due to the decline in Moody's Aa Corporate Bond Index in 2004 and 2003.

The following tables illustrate the effects of changing the major actuarial assumptions discussed above:

<u>Change in Actuarial Assumption</u>	<u>Impact on Projected Benefit Obligation at December 31, 2004</u>	<u>Impact on Pension Liability at December 31, 2004</u>	<u>Impact on 2005 Pension Cost</u>
Pension benefits			
Decrease discount rate by 0.5%	\$626	\$535	\$40
Decrease rate of return on plan assets by 0.5%	—	—	35
<u>Change in Actuarial Assumption</u>	<u>Impact on Other Postretirement Benefit Obligation at December 31, 2004</u>	<u>Impact on Postretirement Benefit Liability at December 31, 2004</u>	<u>Impact on 2005 Postretirement Benefit Cost</u>
Postretirement benefits			
Decrease discount rate by 0.5%	\$174	\$—	\$17
Decrease rate of return on plan assets by 0.5%	—	—	5

Assumed health care cost trend rates also have a significant effect on the costs reported for Exelon's postretirement benefit plans. To estimate the 2004 cost, Exelon assumed a health care cost trend rate of 10%, decreasing to an ultimate trend rate of 4.5% in 2011, compared to the 2003 assumption of 8.5%, decreasing to an ultimate trend rate of 4.5% in 2008. To estimate the 2005 cost, Exelon will assume a health care cost trend rate of 9%, decreasing to an ultimate trend rate of 5% in 2010. A one-percentage point change in assumed health care cost trend rates in 2004 would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	\$ 34
on postretirement benefit obligation	\$ 327
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	\$ (28)
on postretirement benefit obligation	\$(276)

The assumptions are reviewed at the beginning of each year during Exelon's annual review process and at any interim remeasurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension amounts and funding requirements could also change.

In 2004, Exelon incurred approximately \$294 million in costs associated with its pension and postretirement benefit plans, including curtailment and settlement costs of \$24 million. Although 2005 pension and postretirement benefit costs will depend on market conditions, Exelon believes that its pension and postretirement benefit costs will decrease in 2005 due to an anticipated contribution of approximately \$2 billion to the pension plans, partially offset by an increase in postretirement benefit costs due to a change in the assumed healthcare cost trend rate. Depending on the timing of the pension contribution, the estimated net decrease in 2005 pension and postretirement benefit costs could range from approximately \$30 million to approximately \$120 million. If the contribution is made on July 1, 2005, the estimated net decrease in 2005 pension and postretirement benefit cost would be approximately \$75 million.

Regulatory Accounting (Exelon, ComEd and PECO)

Exelon, ComEd and PECO account for their regulated electric and gas operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), which requires Exelon, ComEd and PECO to reflect the effects of rate regulation in their financial statements. Use of SFAS No. 71 is applicable to utility operations that 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. As of December 31, 2004, Exelon, ComEd and PECO have concluded that the operations of ComEd and PECO meet the criteria. If it is concluded in a future period that a separable portion of their businesses no longer meets the criteria, Exelon, ComEd and PECO are required to eliminate the financial statement effects of regulation for that part of their business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in their Consolidated Balance Sheets. The impact of not meeting the criteria of SFAS No. 71 could be material to the financial statements as a one-time extraordinary item and through impacts on continuing operations. See Note 5 and Note 2 of Exelon's and ComEd's Notes to Consolidated Financial Statements, respectively, for further information regarding regulatory issues.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2004, Exelon and PECO had recorded \$4.8 billion of net regulatory assets within their Consolidated Balance Sheets. At December 31, 2004, Exelon and ComEd had recorded \$2.2 billion of net regulatory liabilities within their Consolidated Balance Sheets. See Note 21 of Exelon's Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities of Exelon, ComEd and PECO.

For each regulatory jurisdiction where they conduct business, Exelon, ComEd and PECO continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates.

The electric businesses of both ComEd and PECO are currently subject to rate freezes or rate caps that limit the opportunity to recover increased costs and the costs of new investment in facilities through rates during the rate freeze or rate cap period. Because the current rates include the recovery of existing regulatory assets and liabilities and rates in effect during the rate freeze or rate cap periods are expected to allow Exelon, ComEd and PECO to earn a reasonable rate of return during that period, management believes the existing regulatory assets and liabilities are probable of recovery. This determination reflects the current political and regulatory climate at the Federal level and in the states where ComEd and PECO do business but is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory assets and liabilities would be recognized in current period earnings. A write-off of regulatory assets could limit the ability to pay dividends under PUHCA and state law.

Accounting for Derivative Instruments (Exelon, ComEd, PECO and Generation)

The Registrants enter into derivatives to manage their exposure to fluctuations in interest rates, changes in interest rates related to planned future debt issuances and changes in the fair value of outstanding debt. Generation utilizes derivatives with respect to energy transactions to manage the utilization of its available generating capability and provisions of wholesale energy to its affiliates. Generation also utilizes energy option contracts and energy financial swap arrangements to limit the

market price risk associated with forward energy commodity contracts. Additionally, Generation enters into energy-related derivatives for trading purposes. All of the Registrant's derivative activities are in accordance with Exelon's Risk Management Policy (RMP).

The Registrants account for derivative financial instruments under SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases or normal sales exception. Derivatives recorded at fair value on the balance sheet are presented as current or noncurrent mark-to-market derivative assets or liabilities. Changes in the derivatives recorded at fair value are recognized in earnings unless specific hedge accounting criteria are met, in which case those changes are recorded in earnings as an offset to the changes in fair value of the exposure being hedged or deferred in accumulated other comprehensive income and recognized in earnings as hedged transaction occur.

Normal Purchases and Normal Sales Exception. The availability of the normal purchases and normal sales exception is based upon the assessment of the ability and intent to deliver or take delivery of the underlying item. This assessment is based primarily on internal models that forecast customer demand and electricity and gas supply. These models include assumptions regarding customer load growth rates, which are influenced by the economy, weather and the impact of customer choice, and generating unit availability, particularly nuclear generating unit capability factors. Significant changes in these assumptions could result in these contracts not qualifying for the normal purchases and normal sales exception.

Energy Contracts. Identification of an energy contract as a qualifying cash-flow hedge requires Generation to determine that the contract is in accordance with the RMP, the forecasted future transaction is probable, and the hedging relationship between the energy contract and the expected future purchase or sale of energy is expected to be highly effective at the initiation of the hedge and throughout the hedging relationship. Internal models that measure the statistical correlation between the derivative and the associated hedged item determine the effectiveness of such an energy contract designated as a hedge. Generation reassesses its cash-flow hedges on a regular basis to determine if they continue to be effective and that the forecasted future transactions are probable. When a contract does not meet the effective or probable criteria of SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133) hedge accounting is discontinued and changes in the fair value of the derivative are recorded through earnings.

As a part of accounting for derivatives, the Registrants make estimates and assumptions concerning future commodity prices, load requirements, interest rates, the timing of future transactions and their probable cash flows, the fair value of contracts and the expected changes in the fair value in deciding whether or not to enter into derivative transactions, and in determining the initial accounting treatment for derivative transactions. Generation uses quoted exchange prices to the extent they are available or external broker quotes in order to determine the fair value of energy contracts. When external prices are not available, Generation uses internal models to determine the fair value. These internal models include assumptions of the future prices of energy based on the specific market in which the energy is being purchased, using externally available forward market pricing curves for all periods possible under the pricing model. Generation uses the Black model, a standard industry valuation model, to determine the fair value of energy derivative contracts that are marked-to-market.

Interest-Rate Derivative Instruments. To determine the fair value of interest-rate swap agreements, the Registrants use external dealer prices or internal valuation models that utilize assumptions of available market pricing curves.

Depreciable Lives of Property, Plant and Equipment (Exelon, ComEd, PECO and Generation)

The Registrants have a significant investment in electric generation assets and electric and natural gas transmission and distribution assets. Depreciation of these assets is generally provided over their estimated service lives on a straight-line basis using the composite method. The estimation of service lives requires management judgment regarding the period of time that the assets will be in use. As circumstances warrant, depreciation estimates are reviewed to determine if any changes are needed. Changes to depreciation estimates in future periods could have a significant impact on the amount of depreciation charged to the financial statements.

In 2001, Generation extended the estimated service lives of certain nuclear-fuel generating facilities based upon Generation's intent to apply for license renewals for these facilities. While Generation expects to apply for and obtain approval of license renewals for these facilities, circumstances may arise that would prevent Generation from obtaining additional license renewals. A change in depreciation estimates resulting from Generation's inability to receive additional license renewals could have a significant effect on Generation's results of operations.

Accounting for Contingencies (Exelon, ComEd, PECO and Generation)

In the preparation of their financial statements, the Registrants make judgments regarding the future outcome of contingent events and record amounts that are probable and reasonably estimated based upon available information. The amounts recorded may differ from the actual income or expense that occurs when the uncertainty is resolved. The estimates that the Registrants make in accounting for contingencies and the gains and losses that they record upon the ultimate resolution of these uncertainties have a significant effect on their financial statements. The accounting for taxation and environmental costs are further discussed below.

Taxation

The Registrants are required to make judgments regarding the potential tax effects of various financial transactions and ongoing operations to estimate their obligations to taxing authorities. These tax obligations include income, real estate, use and employment-related taxes, including taxes that are subject to ongoing appeals. Judgments include estimating reserves for potential adverse outcomes regarding tax positions that they have taken. The Registrants must also assess their ability to generate capital gains in future periods to realize tax benefits associated with capital losses previously generated or expected to be generated in future periods. Capital losses may be deducted only to the extent of capital gains realized during the year of the loss or during the three prior or five succeeding years. The Registrants do not record valuation allowances for deferred tax assets related to capital losses that the Registrants believe will be realized in future periods. Generation has recorded valuation allowances against certain deferred assets associated with capital losses due to the consolidation of Sithe. While the Registrants believe the resulting tax reserve balances as of December 31, 2004 reflect the probable expected outcome of these tax matters in accordance with SFAS No. 5, "Accounting for Contingencies," and SFAS No. 109, "Accounting for Income Taxes," the ultimate outcome of such matters could result in favorable or unfavorable adjustments to their consolidated financial statements and such adjustments could be material.

Environmental Costs

As of December 31, 2004, Exelon, ComEd, PECO and Generation had accrued liabilities of \$124 million, \$61 million, \$47 million and \$16 million, respectively, for environmental investigation and remediation costs. These liabilities are based upon estimates with respect to the number of sites for which the Registrants will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of the remediation work. Where

timing and costs of expenditures can be reliably estimated, amounts are discounted. These amounts represent \$96 million, \$55 million and \$41 million, respectively, of the total accrued for Exelon, ComEd and PECO. Where timing and amounts cannot be reliably estimated, amounts are recognized on an undiscounted basis. Such amounts represent \$28 million, \$6 million, \$6 million and \$16 million, respectively, of the total accrued liabilities for Exelon, ComEd, PECO and Generation. Estimates can be affected by the factors noted above as well as by changes in technology, regulations or the requirements of local governmental authorities.

Severance Accounting (Exelon, ComEd, PECO and Generation)

The Registrants provide severance benefits to terminated employees pursuant to pre-existing severance plans primarily based upon each individual employee's years of service with the Registrants and compensation level. The Registrants accrue severance benefits that are considered probable and can be reasonably estimated in accordance with SFAS No. 112, "Employer's Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43" (SFAS No. 112). A significant assumption in estimating severance charges is the determination of the number of positions to be eliminated. The Registrants base their estimates on their current plans and ability to determine the appropriate staffing levels to effectively operate their businesses. Exelon, ComEd, PECO and Generation recorded severance charges of \$32 million, \$10 million, \$3 million and \$2 million, respectively, in 2004 and severance charges of \$135 million, \$61 million, \$16 million and \$38 million, respectively, in 2003, related to personnel reductions. The Registrants may incur further severance costs if they identify additional positions to be eliminated. These costs will be recorded in the period in which the costs can be reasonably estimated.

Revenue Recognition (Exelon, ComEd, PECO and Generation)

Revenues related to the sale of energy are recorded when service is rendered or energy is delivered to customers. The determination of Energy Delivery's and Exelon Energy Company's energy sales to individual customers, however, is based on systematic readings of customer meters generally on a monthly basis. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and corresponding unbilled revenue is recorded. This unbilled revenue is estimated each month based on daily customer usage measured by generation or gas throughput volume, estimated customer usage by class, estimated losses of energy during delivery to customers and applicable customer rates. Customer accounts receivable of ComEd, PECO, and Generation included estimates of \$275 million, \$143 million, and \$64 million, respectively, for unbilled revenue as of December 31, 2004 as a result of unread meters at ComEd, PECO and Exelon Energy Company. Increases in volumes delivered to the utilities' customers and favorable rate mix due to changes in usage patterns in customer classes in the period would increase unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, total operating revenues would remain materially unchanged.

The determination of Generation's energy sales, excluding Exelon Energy Company, is based on estimated amounts delivered as well as fixed quantity sales. At the end of each month, amounts of energy delivered to customers during the month are estimated and the corresponding unbilled revenue is recorded. Customer accounts receivable of Exelon and Generation as of December 31, 2004 include unbilled energy revenues of \$385 million related to unbilled energy sales of Generation. Increases in volumes delivered to the wholesale customers in the period would increase unbilled revenue.

Accounting for Ownership Interests in Variable Interest Entities (Exelon, ComEd, PECO and Generation)

At December 31, 2004, Exelon, through Generation, had a 50% interest in Sithe. In accordance with FIN 46-R, Exelon and Generation consolidated Sithe within their financial statements as of

March 31, 2004. The determination that Sithe qualified as a variable interest entity and that Generation was the primary beneficiary under FIN 46-R required analysis of the economic benefits accruing to all parties pursuant to their ownership interests supplemented by management's judgment. Sithe's total assets and total liabilities as of December 31, 2004 were \$1,356 million and \$1,289 million, respectively. As required by FIN 46-R, upon the occurrence of a future triggering event, such as a change in ownership, the Registrant would reassess their investments to determine if they continue to qualify as the primary beneficiary. See Notes 3 and 25 of Exelon's Notes to Consolidated Financial Statements for a discussion of the sale of Generation's interest in Sithe, which was completed on January 31, 2005. Subsequent to the sale, Sithe will no longer be consolidated within the financial statements of Exelon or Generation.

In addition to Sithe, the Registrants reviewed other entities with which they have business relationships to determine if those entities were variable interest entities that should be consolidated under FIN 46-R and concluded that those entities should not be consolidated within the financial statements.

Exelon

Executive Overview

Financial Results. Exelon's net income was \$1,864 million in 2004 as compared to \$905 million in 2003 and diluted earnings per average common share were \$2.78 for 2004 as compared to \$1.38 for 2003, primarily as a result of increased net income at Generation, lower losses at Enterprises and several significant charges in 2003 that did not recur in 2004, partially offset by decreased net income at Energy Delivery. Key drivers included the following:

- *Increased net income at Generation*—Generation provided net income of \$673 million in 2004 compared to a net loss of \$151 million in 2003. The increase in Generation's net income reflects improved wholesale prices in 2004, the inclusion of a full year of AmerGen's results in 2004, and impairment charges in 2003 of \$945 million and \$255 million (before income taxes) related to the long-lived assets of Boston Generating and Generation's investment in Sithe, respectively. Generation's 2004 income also includes an after-tax gain of \$52 million on the sale of Boston Generating during the second quarter of 2004. See further discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation."
- *Decreased losses at Enterprises*—Enterprises reported a net loss of \$22 million in 2004 compared to a net loss of \$118 million in 2003. Enterprises' comparative results reflect net pre-tax gains of \$41 million recorded in 2004 related to the dispositions of certain businesses and investments, as well as investment impairment charges of \$54 million recorded in 2003. See further discussion under "Investment Strategy" below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Exelon Corporation—Results of Operations—Enterprises."
- *Favorable tax effects from investments in synthetic fuel-producing facilities*—Exelon's investments in synthetic fuel-producing facilities increased 2004 after-tax earnings by \$65 million as compared to 2003.
- *Decreased net income at Energy Delivery*—Energy Delivery provided net income of \$1,128 million in 2004 compared to \$1,175 million in 2003. This decrease was primarily attributable to unfavorable weather conditions and charges recorded in connection with the early retirement of debt, partially offset by growth in Energy Delivery's retail customer base and reduced severance and other charges in 2004 as compared to 2003. See further discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Energy Delivery."

Investment Strategy. In 2004, Exelon continued to follow a disciplined approach to investing to maximize earnings and cash flows from its assets and businesses, while selling those that do not meet its strategic goals. Highlights from 2004 include the following:

- *Proposed Merger with PSEG*—On December 20, 2004, Exelon entered into the Merger Agreement with PSEG, the holding company for an electric and gas utility company primarily located and serving customers in New Jersey, whereby PSEG will be merged with and into Exelon. Under the Merger Agreement, each share of PSEG common stock will be converted into 1.225 shares of Exelon common stock. As of December 31, 2004, PSEG's market capitalization was over \$12 billion. Additionally, PSEG, on a consolidated basis, has approximately \$14 billion of outstanding debt which is currently anticipated to become part of Exelon's consolidated debt.

The Merger Agreement contains certain termination rights for both Exelon and PSEG, and further provides that, upon termination of the Merger Agreement under specified circumstances, (i) Exelon may be required to pay PSEG a termination fee of \$400 million plus

PSEG's transaction expenses up to \$40 million and (ii) PSEG may be required to pay Exelon a termination fee of \$400 million plus Exelon's transaction expenses up to \$40 million. The Merger Agreement has been unanimously approved by both companies' boards of directors but is contingent upon, among other things, the approval by shareholders of both companies, antitrust clearance and a number of regulatory approvals or reviews by federal and state energy authorities. On February 4, 2005, Exelon and PSEG filed for approval of the merger with the FERC, the New Jersey Board of Public Utilities (BPU) and the PUC. Exelon also filed a notice of the Merger with the ICC.

Exelon anticipates that the Merger will close within 12 months to 15 months after the announcement of the Merger Agreement in December 2004, subject to shareholder and regulatory approvals which cannot be assured.

- *OSC with PSEG*—Concurrent with the Merger Agreement, Generation entered into the OSC with PSEG Nuclear, LLC which commenced on January 17, 2005 relating to the operation of the Salem and Hope Creek nuclear generating stations. The OSC provides for Generation to provide a chief nuclear officer and other key personnel to oversee daily plant operations at the Hope Creek and Salem nuclear generating stations and to implement the Exelon operating model. PSEG Nuclear, LLC will continue as the license holder with exclusive legal authority to operate and maintain the plants, will retain responsibility for management oversight and will have full authority with respect to the marketing of its share of the output from the facilities.
- *Boston Generating*—On May 25, 2004, Generation completed the sale, transfer and assignment of ownership of its indirect wholly owned subsidiary Boston Generating, which owns directly or indirectly the companies that own Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, to a special purpose entity owned by the lenders under Boston Generating's \$1.25 billion credit facility, resulting in an after-tax gain of \$52 million. On September 1, 2004, Generation completed the transfer of plant operations and power marketing arrangements to the lenders' special purpose entity and its contractors under Boston Generating's credit facility.
- *Sithe*—On September 29, 2004, Generation exercised its call option and entered into an agreement to acquire Reservoir's 50% interest in Sithe for \$97 million and, on November 1, 2004, Generation entered into an agreement to sell its anticipated 100% interest in Sithe to Dynegy Inc. for \$135 million in cash. Generation closed on the call exercise and the sale of the resulting 100% interest in Sithe on January 31, 2005. The sale did not include Sithe International, Inc. (Sithe International), which was sold to a subsidiary of Generation on October 13, 2004.
- *Enterprises*—Exelon continued its divestiture strategy for Enterprises by selling or winding down substantially all components of Enterprises. At December 31, 2004, Enterprises' remaining assets totaled approximately \$274 million in comparison to \$697 million at December 31, 2003. Enterprises expects to receive aggregate proceeds of \$268 million and recorded a net pre-tax gain of \$41 million related to the dispositions of assets and investments in 2004.

Financing Activities. During 2004, Exelon substantially strengthened its balance sheet and met its capital resource requirements primarily with internally generated cash. When necessary, Exelon obtains funds from external sources, including capital markets, and through bank borrowings. Highlights from 2004 include the following:

- ComEd retired \$1.2 billion of its outstanding debt, including \$1.0 billion prior to its maturity and \$206 million at maturity, pursuant to an accelerated liability management plan. In connection with these retirements, ComEd recorded pre-tax charges totaling \$130 million related to debt prepayment premiums and the write-off of previously deferred debt financing fees.

- In addition to the accelerated liability management plan, payments of approximately \$728 million were made for the purpose of retiring PECO and ComEd transition trust long-term debt and approximately \$176 million of other net long-term debt during 2004.
- Exelon replaced its \$750 million 364-day unsecured revolving credit agreement with a \$1 billion five-year facility and reduced its \$750 million three-year facility to \$500 million.
- Exelon's Board of Directors approved a discretionary share repurchase program under which Exelon purchased common stock, now held as treasury shares, totaling \$75 million during 2004.
- Exelon's Board of Directors approved a policy of targeting a dividend payout ratio of 50% to 60% of ongoing earnings, and Exelon expects a dividend payout in that range for the full year of 2005. The actual dividend payout rate depends on Exelon achieving its objectives, including meeting cash flow targets and strengthening its balance sheet. On October 29, 2004, the Exelon Board of Directors approved an increased quarterly dividend of \$0.40 per share, which was consistent with the dividend policy approved in 2004. The Board of Directors must approve the dividends each quarter after review of Exelon's financial condition at the time, and there can be no guarantees that this targeted dividend payout ratio will be achieved.

Regulatory Developments—PJM Integration. On May 1, 2004, ComEd fully integrated its transmission facilities into PJM. PECO's and ComEd's membership in PJM supports Exelon's commitment to competitive wholesale electric markets and will provide Exelon the benefits of more transparent, liquid and competitive markets for the sale and purchase of electric energy and capacity. Upon joining PJM, ComEd began incurring administrative fees, which are expected to approximate \$25 million annually. Exelon believes such costs will ultimately be offset by the benefits of full access to a wholesale competitive marketplace and increased revenue requirements, particularly after ComEd's regulatory transition period ends in 2006; however, changes in market dynamics could affect the ultimate financial impact on Exelon.

Outlook for 2005 and Beyond. Exelon's future financial results will be affected by a number of factors, including the following:

Shorter Term: Weather conditions, wholesale market prices of electricity, fuel costs, interest rates, successful implementation of operational improvement initiatives and Exelon's ability to generate electricity at low costs all affect Exelon's operating revenues and related costs. If weather is warmer than normal in the summer months or colder than normal in the winter months, operating revenues at Exelon generally will be favorably affected. Operating revenues will also generally be favorably affected by increases in wholesale market prices.

Longer Term: The proposed merger with PSEG is expected to have a significant impact on Exelon's results of operations, cash flows and financial position. See further discussion above at "Proposed Merger with PSEG" and in General Description of Our Business—Proposed Merger with PSEG. Following is a discussion of the other non-merger-related items that will have a longer term impact on Exelon.

Restructuring in the U.S. electric industry is at a crossroads at both the Federal and state levels, with continuing debate on RTO and standard market platform issues, and in many states on the "post-transition" format. Some states abandoned failed transition plans (e.g., California); some states are adjusting current transition plans (e.g., Ohio); and the states of Illinois (by 2007) and Pennsylvania (by 2011) are considering options to preserve choice for large customers and rate stability for mass-market customers, while ensuring the financial returns needed for continuing investments in reliability. Exelon will continue to be an active participant in these policy debates, while continuing to focus on improving operations, controlling costs and providing a fair return to its investors.

As Exelon looks toward the end of the restructuring transition periods and related rate freezes or caps in Illinois and Pennsylvania, Exelon will also continue to work with Federal and state regulators, state and local governments, customer representatives and other interested parties to develop appropriate processes for establishing future rates in restructured electricity markets. Exelon will strive to ensure that future rate structures recognize the substantial improvements Exelon has made, and will continue to make, in its transmission and distribution systems. ComEd and PECO will also work to ensure that ComEd's and PECO's rates are adequate to cover their costs of obtaining electric power and energy from their suppliers, which could include Generation, for the costs associated with procuring full-requirements power given Energy Delivery's POLR obligations. ComEd intends to make various filings during 2005 to begin the process to establish rates for the post-transition period. As in the past, by working together with all interested parties, Exelon believes it can successfully meet these objectives and obtain fair recovery of its costs for providing service to its customers; however, if Exelon is unsuccessful, its results of operations and cash flows could be negatively affected after the transition periods.

Generation's financial results will be affected by a number of factors, including the market changes in Illinois and Pennsylvania discussed above. While Generation has significantly hedged its market exposure in the short-term, over the long-term, Generation's results will be affected by long-term changes in the market prices of power and fuel caused by supply and demand forces and environmental regulations. Generating companies must also work with regulators to ensure that a viable capacity market exists and that new units will be constructed in a timely manner to meet the growing demand for power. On the operating side, to meet Exelon's financial goals, Generation's nuclear units must continue their superior performance while controlling costs despite inflationary pressures and increasing security costs.

Exelon's current plans are based on moderate kilowatt-hour sales growth (1% to 2%) from their current levels and stable wholesale power markets. Continued cost reduction initiatives are important to offset labor and material cost escalation, especially the double digit increases in health care costs. Despite these challenges, Exelon's diverse mix of generation (nuclear, coal, purchased power, natural gas, hydroelectric, wind and other renewables), linked to a stable base of over five million customers, will provide a solid platform from which it will strive to meet these challenges.

Results of Operations

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Significant Operating Trends—Exelon

<u>Exelon Corporation</u>	<u>2004</u>	<u>2003</u>	<u>Favorable (unfavorable) variance</u>
Operating revenues	\$14,515	\$15,812	\$(1,297)
Purchased power and fuel expense	5,082	6,375	1,293
Impairment of Boston Generating, LLC long-lived assets	—	945	945
Operating and maintenance expense	3,976	4,508	532
Depreciation and amortization expense	1,305	1,126	(179)
Operating income	3,433	2,277	1,156
Other income and deductions	(921)	(1,148)	227
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	2,512	1,129	1,383
Income before cumulative effect of changes in accounting principles	1,841	793	1,048
Income taxes	692	331	(361)
Net income	1,864	905	959
Diluted earnings per share	2.78	1.38	1.40

Net Income. Net income for 2004 reflects income of \$32 million, net of income taxes, for the adoption of FIN 46-R, partially offset by a loss of \$9 million, net of income taxes, related to the adoption of Emerging Issues Task Force (EITF) Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). Net income for 2003 reflects income of \$112 million, net of income taxes, for the adoption of SFAS No. 143. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further information regarding the adoptions of FIN 46-R, EITF 03-16 and SFAS No. 143.

Operating Revenues. Operating revenues decreased primarily due to decreased revenues at Enterprises due to the sale of the majority of its businesses since the third quarter of 2003, the sale of Boston Generating and Generation's adoption of EITF No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities'" (EITF 03-11) in the first quarter of 2004, which changed the presentation of certain power transactions and decreased 2004 operating revenues by \$980 million. The adoption of EITF 03-11 had no impact on net income. Operating revenues were favorably affected by Generation's acquisition of the remaining 50% of AmerGen and the consolidation of Sithe. Operating revenues were also favorably affected by Energy Delivery's increased volume growth and transmission revenues collected from PJM, partially offset by unfavorable weather conditions and customer choice initiatives. See further discussion of operating revenues by segment below.

Purchased Power and Fuel Expense. Purchased power and fuel expense decreased primarily due to Generation's adoption of EITF 03-11 during 2004 which resulted in a decrease in purchased power expense and fuel expense of \$980 million. In addition, purchased power decreased due to Generation's acquisition of the remaining 50% of AmerGen in December 2003, which was only partially offset by an increase in fuel expense, and the sale of Boston Generating. Purchased power represented 24% of Generation's total supply in 2004 compared to 37% in 2003. Purchased power

also decreased due to Energy Delivery's unfavorable weather conditions and customer choice initiatives, partially offset by volume growth and transmission costs paid to PJM. See further discussion of purchased power and fuel expense by segment below.

Impairment of the Long-Lived Assets of Boston Generating. Generation recorded a \$945 million charge (before income taxes) during 2003 to impair the long-lived assets of Boston Generating.

Operating and Maintenance Expense. Operating and maintenance expense decreased primarily as a result of decreased expenses at Enterprises due to the sale of the majority of its businesses since the third quarter of 2003 and decreased severance and severance-related expenses, partially offset by increased expenses at Generation due to the acquisition of the remaining 50% of AmerGen and the consolidation of Sithe. Operating and maintenance expense increased \$65 million due to investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004. See further discussion of operating and maintenance expenses by segment below.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense was primarily due to additional plant placed in service at Energy Delivery and Generation, the acquisition of the remaining 50% in AmerGen in December 2003, the consolidation of Sithe and the recording and subsequent impairment of an asset retirement cost (ARC) at Generation in 2004. See Note 14 of Exelon's Notes to Consolidated Financial Statements for additional information. The increase also resulted from increased amortization expense due to investments made in the fourth quarter of 2003 and the third quarter of 2004 in synthetic fuel-producing facilities and increased competitive transition charge amortization at PECO. These increases were partially offset by reduced depreciation and amortization expense at Enterprises due to the sale of a majority of its businesses since the third quarter of 2003.

Operating Income. Exclusive of the changes in operating revenues, purchased power and fuel expense, the impairment of Boston Generating's long-lived assets, operating and maintenance expense and depreciation and amortization expense discussed above, the change in operating income was primarily the result of increased taxes other than income in 2004 as compared to 2003, primarily due to the reduction of certain real estate tax accruals at PECO and Generation during 2003.

Other Income and Deductions. Other income and deductions reflects interest expense of \$905 million, equity in losses of unconsolidated affiliates of \$153 million, debt retirement charges of \$130 million (before income taxes) recorded at ComEd in 2004 associated with an accelerated liability management plan, impairment charges of \$255 million (before income taxes) recorded during 2003 related to Generation's investment in Sithe, an \$85 million gain (before income taxes) on the 2004 sale of Boston Generating and a \$35 million aggregate net gain on the sale of investments and assets of Thermal in 2004 (before income taxes and net of debt prepayment penalties). Equity in earnings of unconsolidated affiliates decreased by \$186 million due to the acquisition of the remaining 50% of AmerGen in December 2003, the deconsolidation of certain financing trusts during 2003 and investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004.

Effective Income Tax Rate. The effective income tax rate was 27.5% for 2004 compared to 29.3% for 2003. The decrease in the effective rate was primarily attributable to investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004.

Results of Operations by Business Segment

The comparisons of 2004 and 2003 operating results and other statistical information set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Transfer of Exelon Energy Company from Enterprises to Generation. Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, was transferred to Generation. The 2003 information related to the Enterprises and Generation segments discussed below has been adjusted to reflect the transfer of Exelon Energy Company from the Enterprises segment to the Generation segment. Exelon Energy Company's 2003 results were as follows:

Total revenues	\$834
Intersegment revenues	4
Operating revenue and purchased power from affiliates	209
Depreciation and amortization	2
Operating expenses	857
Interest expense	1
Loss before income taxes	(29)
Income taxes	(11)
Net loss	(18)

Income (Loss) Before Cumulative Effect of Changes in Accounting Principles by Business Segment

	2004	2003	Favorable (unfavorable) variance
Energy Delivery	\$1,128	\$1,170	\$ (42)
Generation	641	(259)	900
Enterprises	(13)	(117)	104
Corporate	85	(1)	86
Total	<u>\$1,841</u>	<u>\$ 793</u>	<u>\$1,048</u>

Net Income (Loss) by Business Segment

	2004	2003	Favorable (unfavorable) variance
Energy Delivery	\$1,128	\$1,175	\$ (47)
Generation	673	(151)	824
Enterprises	(22)	(118)	96
Corporate	85	(1)	86
Total	<u>\$1,864</u>	<u>\$ 905</u>	<u>\$959</u>

Results of Operations—Energy Delivery

	2004	2003	Favorable (Unfavorable) variance
OPERATING REVENUES	\$10,290	\$10,202	\$ 88
OPERATING EXPENSES			
Purchased power and fuel expense	4,760	4,597	(163)
Operating and maintenance	1,444	1,669	225
Depreciation and amortization	928	873	(55)
Taxes other than income	527	440	(87)
Total operating expense	<u>7,659</u>	<u>7,579</u>	<u>(80)</u>
OPERATING INCOME	<u>2,631</u>	<u>2,623</u>	<u>8</u>
OTHER INCOME AND DEDUCTIONS			
Interest expense	(672)	(747)	75
Distributions on mandatorily redeemable preferred securities ..	(3)	(39)	36
Equity in losses of unconsolidated affiliates	(44)	—	(44)
Other, net	<u>(78)</u>	<u>51</u>	<u>(129)</u>
Total other income and deductions	<u>(797)</u>	<u>(735)</u>	<u>(62)</u>
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,834	1,888	(54)
INCOME TAXES	<u>706</u>	<u>718</u>	<u>12</u>
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,128	1,170	(42)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	<u>—</u>	<u>5</u>	<u>(5)</u>
NET INCOME	<u>\$ 1,128</u>	<u>\$ 1,175</u>	<u>\$ (47)</u>

Net Income. Energy Delivery's net income in 2004 decreased primarily due to costs associated with ComEd's accelerated retirement of long-term debt, reflected in other income and deductions—other, net, offset in part by lower interest expense. Operating income, while reflecting various changes in operating revenues and expenses, was relatively unchanged between periods.

Operating Revenues. The changes in Energy Delivery's operating revenues for 2004 compared to 2003 consisted of the following:

	Electric	Gas	Total increase (decrease)
Volume	\$ 326	\$ 3	\$ 329
PJM transmission	149	—	149
Rate changes and mix	(74)	111	37
Weather	(176)	(21)	(197)
Customer Choice	(182)	—	(182)
T&O Charges	(41)	—	(41)
Other	<u>(17)</u>	<u>10</u>	<u>(7)</u>
(Decrease) increase in operating revenues	<u>\$ (15)</u>	<u>\$103</u>	<u>\$ 88</u>

Volume. Both ComEd's and PECO's electric revenues increased as a result of higher delivery volume, exclusive of the effects of weather and customer choice, due to an increased number of customers and increased usage per customer, generally across all customer classes.

PJM Transmission. Energy Delivery's transmission revenues and purchased power expense each increased by \$164 million due to ComEd's May 1, 2004 entry into PJM, partially offset by \$15 million of lower transmission revenues and expenses at PECO.

Rate Changes and Mix. Starting in ComEd's June 2003 billing cycle, the increased wholesale market price of electricity and other adjustments to the energy component decreased the collection of CTCs as compared to the respective prior year period. ComEd's CTC revenues decreased by \$135 million in 2004 as compared to 2003. This decrease was partially offset by increased wholesale market prices which increased energy revenue received under the ComEd PPO and by increased average rates paid by small and large commercial and industrial customers totaling \$53 million. For 2004 and 2003, ComEd collected approximately \$169 million and \$304 million, respectively, of CTC revenue. As a result of increasing mitigation factors, changes in energy prices and the ability of certain customers to establish fixed, multi-year CTC rates beginning in 2003, ComEd anticipates that this revenue source will range from \$90 million to \$110 million annually in 2005 and 2006. Under the current restructuring statute, no CTCs will be collected after 2006.

Electric revenues increased \$1 million at PECO as a result of a \$20 million increase related to a scheduled phase-out of merger-related rate reductions, offset by a \$19 million decrease reflecting a change in rate mix due to changes in monthly usage patterns in all customer classes during 2004 as compared to 2003.

Energy Delivery's gas revenues increased due to increases in rates through PUC-approved changes to the purchased gas adjustment clause that became effective March 1, 2003, June 1, 2003, December 1, 2003 and March 1, 2004. The average purchased gas cost rate per million cubic feet for 2004 was 33% higher than the rate in 2003. PECO's purchased gas cost rates were reduced effective December 1, 2004.

Weather. Energy Delivery's electric and gas revenues were negatively affected by unfavorable weather conditions. Cooling degree-days in the ComEd and PECO service territories were 12% lower and relatively unchanged, respectively, in 2004 as compared to 2003. Heating degree-days were 6% and 5% lower in both the ComEd and PECO service territories, respectively, in 2004 as compared to 2003.

Customer Choice. For 2004 and 2003, 28% and 25%, respectively, of energy delivered to Energy Delivery's retail customers was provided by an alternative electric supplier or under the ComEd PPO. The decrease in electric retail revenues attributable to customer choice included a decrease in revenues of \$104 million from customers in Illinois electing to purchase energy from an alternative electric supplier or under the ComEd PPO and a decrease in revenues of \$78 million from customers in Pennsylvania being assigned to or selecting an alternative electric supplier.

T&O Charges. Prior to FERC orders issued in November 2004, ComEd collected through and out (T&O) charges for energy flowing across ComEd's transmission system. Charges collected as the transmission owner were recorded in operating revenues. In addition after ComEd joined PJM on May 1, 2004, PJM allocated T&O collections to ComEd as a load serving entity. The collections received as a load serving entity were recorded as a decrease to purchased power expense. See Note 5 of Exelon's Notes to Consolidated Financial Statements for more information on T&O charges.

Purchased Power and Fuel Expense. The changes in Energy Delivery's purchased power and fuel expense for 2004 compared to 2003 consisted of the following:

	Electric	Gas	Total increase (decrease)
Volume	\$ 163	\$ (2)	\$ 161
PJM transmission	149	—	149
Prices	11	111	122
PJM administrative fees	15	—	15
Customer choice	(165)	—	(165)
Weather	(84)	(15)	(99)
T&O Charges	(22)	—	(22)
Other	(13)	15	2
Increase in purchased power and fuel expense	<u>\$ 54</u>	<u>\$109</u>	<u>\$ 163</u>

Volume. ComEd's and PECO's purchased power and fuel expense increased due to increases, exclusive of the effects of weather and customer choice, in the number of customers and average usage per customer, generally across all customer classes.

PJM Transmission. Energy Delivery's transmission revenues and purchased power expense each increased by \$164 million in 2004 relative to 2003 due to ComEd's May 1, 2004 entry into PJM, partially offset by \$15 million of lower transmission revenues and expenses at PECO. See "Operating Revenues" above.

PJM Administrative Fees. ComEd fully integrated into PJM on May 1, 2004.

Prices. Energy Delivery's purchased power expense increased due to a change in the mix of average pricing related to ComEd's and PECO's PPAs with Generation. Fuel expense for gas increased due to higher gas prices. See "Operating Revenues" above.

Customer Choice. An increase in customer switching resulted in a reduction of purchased power expense, primarily due to ComEd's non-residential customers electing to purchase energy from an alternative electric supplier and PECO's residential customers selecting or being assigned to purchase energy from an alternative electric supplier.

Weather. Energy Delivery's purchased power and fuel expense decreased due to unfavorable weather conditions.

T&O Charges. Prior to FERC orders issued in November 2004, ComEd collected through and out (T&O) charges for energy flowing across ComEd's transmission system. Charges collected as the transmission owner were recorded in operating revenues. In addition after ComEd joined PJM on May 1, 2004, PJM allocated T&O collections to ComEd as a load serving entity. The collections received as a load serving entity were recorded as a decrease to purchased power expense. See Note 5 of Exelon's Notes to Consolidated Financial Statements for more information on T&O charges.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2004 compared to 2003 consisted of the following:

	<u>Increase (decrease)</u>
Severance and severance-related expenses	\$(132)
Charge recorded at ComEd in 2003 ^(a)	(41)
Payroll expense ^(b)	(36)
Incremental storm costs	(21)
Contractors	(18)
Automated meter reading system implementation costs at PECO in 2003	(16)
Allowance for uncollectible accounts expense	(13)
FERC annual fees ^(c)	(11)
Environmental charges	(10)
Corporate allocations ^(d)	77
Other	(4)
Decrease in operating and maintenance expense	<u>\$(225)</u>

(a) In 2003, ComEd reached an agreement with various Illinois retail market participants and other interested parties.

(b) Energy Delivery had fewer employees in 2004 compared to 2003.

(c) After joining PJM on May 1, 2004, ComEd is no longer directly charged annual fees by the FERC. PJM pays the annual FERC fees.

(d) Higher corporate allocations primarily result from centralization of information technology, supply, human resources, communications, and finance functions into BSC from all of the Exelon operating companies, and changes in the corporate governance allocation calculation. Corporate governance allocations increased overall as a result of higher centralized costs distributed out of BSC, the sale of the Enterprises companies resulting in Energy Delivery comprising a greater base percentage of Exelon, and an SEC-mandated change to the methodology used to allocate Exelon's corporate governance costs.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense was primarily due to increased competitive transition charge amortization of \$31 million at PECO and increased depreciation of \$22 million due to capital additions across Energy Delivery. In January 2005, PECO's Board of Directors approved the implementation of a new customer information and billing system as part of a broader Energy Delivery systems strategy. The approval of this new system will result in the accelerated depreciation of PECO's current system, which is expected to result in additional annual depreciation expense in 2005 and 2006 of \$15 million and \$8 million, respectively, relative to 2004 levels. If additional system changes are approved, additional accelerated depreciation may be required.

Taxes Other Than Income. The increase in taxes other than income reflects increases at PECO and ComEd of \$63 million and \$24 million, respectively. The increase at PECO was primarily attributable to a \$58 million reduction of real estate tax accruals during 2003 and \$12 million related to the reversal of a use tax accrual in 2003 resulting from an audit settlement, partially offset by \$4 million of lower payroll taxes in 2004. The increase at ComEd was primarily attributable to a \$25 million credit in 2003 for use tax payments for periods prior to the PECO / Unicom Merger and a refund of \$5 million for Illinois Electricity Distribution taxes in 2003 partially offset by a refund of \$8 million for Illinois Electricity Distribution taxes in 2004.

Interest Expense. The reduction in interest expense was primarily due to scheduled principal payments, debt retirements and prepayments, and refinancings at lower rates.

Distributions on Preferred Securities of Subsidiaries. Effective July 1, 2003, upon the adoption of FIN 46 and effective December 31, 2003, upon the adoption of FIN 46-R, ComEd and

PECO deconsolidated their financing trusts (see Note 1 of Exelon's Notes to Consolidated Financial Statements). ComEd and PECO no longer record distributions on mandatorily redeemable preferred securities, but record interest expense to affiliates related to their obligations to the financing trusts.

Equity in Losses of Unconsolidated Affiliates. During 2004, ComEd and PECO recorded \$19 million and \$25 million, respectively, of equity in net losses of subsidiaries as a result of ComEd and PECO deconsolidating their financing trusts.

Other, net. The change in other, net is primarily due to Exelon's initiation in 2004 of an accelerated liability management plan at ComEd that resulted in the retirement of approximately \$1.2 billion of long-term debt, including \$1.0 billion prior to its maturity and \$206 million at maturity. ComEd recorded charges of \$130 million associated with the retirement of debt under the plan. The components of these charges included the following: \$86 million related to prepayment premiums; \$12 million related to net unamortized premiums, discounts and debt issuance costs; \$24 million of losses on reacquired debt previously deferred as regulatory assets; and \$12 million related to settled cash-flow interest-rate swaps previously deferred as regulatory assets partially offset by \$4 million of unamortized gain on settled fair value interest-rate swaps.

Energy Delivery Operating Statistics and Revenue Detail

Energy Delivery's electric sales statistics and revenue detail were as follows:

<u>Retail Deliveries – (in GWhs) ^(a)</u>	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Change</u>
Full service ^(b)				
Residential	36,812	37,564	(752)	(2.0%)
Small commercial & industrial	26,914	28,165	(1,251)	(4.4%)
Large commercial & industrial	20,969	20,660	309	1.5%
Public authorities & electric railroads	5,135	6,022	(887)	(14.7%)
Total full service	<u>89,830</u>	<u>92,411</u>	<u>(2,581)</u>	<u>(2.8%)</u>
Delivery only ^(c)				
Residential	2,158	900	1,258	139.8%
Small commercial & industrial	8,794	7,461	1,333	17.9%
Large commercial & industrial	13,182	10,689	2,493	23.3%
Public authorities & electric railroads	1,410	1,402	8	0.6%
	<u>25,544</u>	<u>20,452</u>	<u>5,092</u>	<u>24.9%</u>
PPO (ComEd only)				
Small commercial & industrial	3,594	3,318	276	8.3%
Large commercial & industrial	4,223	4,348	(125)	(2.9%)
Public authorities & electric railroads	1,670	1,925	(255)	(13.2%)
	<u>9,487</u>	<u>9,591</u>	<u>(104)</u>	<u>(1.1%)</u>
Total delivery only and PPO	<u>35,031</u>	<u>30,043</u>	<u>4,988</u>	<u>16.6%</u>
Total retail deliveries	<u>124,861</u>	<u>122,454</u>	<u>2,407</u>	<u>2.0%</u>

(a) One gigawatthour is the equivalent of one million kilowatthours (kWh).

(b) Full service reflects deliveries to customers taking electric service under tariffed rates.

(c) Delivery only service reflects customers electing to receive electric generation service from an alternative electric supplier, which rates include a distribution charge and a CTC.

<u>Electric Revenue</u>	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Change</u>
Full service ^(a)				
Residential	\$3,612	\$3,715	\$(103)	(2.8%)
Small commercial & industrial	2,360	2,421	(61)	(2.5%)
Large commercial & industrial	1,403	1,394	9	0.6%
Public authorities & electric railroads	341	396	(55)	(13.9%)
Total full service	<u>7,716</u>	<u>7,926</u>	<u>(210)</u>	<u>(2.6%)</u>
Delivery only ^(b)				
Residential	164	65	99	152.3%
Small commercial & industrial	220	214	6	2.8%
Large commercial & industrial	190	196	(6)	(3.1%)
Public authorities & electric railroads	28	33	(5)	(15.2%)
Total delivery only	<u>602</u>	<u>508</u>	<u>94</u>	<u>18.5%</u>
PPO (ComEd only) ^(c)				
Small commercial & industrial	246	225	21	9.3%
Large commercial & industrial	240	240	—	—
Public authorities & electric railroads	92	103	(11)	(10.7%)
Total PPO	<u>578</u>	<u>568</u>	<u>10</u>	<u>1.8%</u>
Total delivery only and PPO	<u>1,180</u>	<u>1,076</u>	<u>104</u>	<u>9.7%</u>
Total electric retail revenues	<u>8,896</u>	<u>9,002</u>	<u>(106)</u>	<u>(1.2%)</u>
Wholesale and miscellaneous revenue ^(d)	646	555	91	16.4%
Total electric revenue	<u>\$9,542</u>	<u>\$9,557</u>	<u>\$ (15)</u>	<u>(0.2%)</u>

(a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy. PECO's tariffed rates also include a CTC. See Note 5 of Exelon's Notes to Consolidated Financial Statements for a discussion of CTC.

(b) Delivery only revenue reflects revenue under tariffed rates from customers electing to receive electric generation service from an alternative electric supplier, which rates include a distribution charge and a CTC. Prior to ComEd's full integration into PJM on May 1, 2004, ComEd's transmission charges received from alternative electric suppliers are included in wholesale and miscellaneous revenue.

(c) Revenues from customers choosing ComEd's PPO include an energy charge at market rates, transmission and distribution charges, and a CTC.

(d) Wholesale and miscellaneous revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.

Energy Delivery's gas sales statistics and revenue detail were as follows:

<u>Deliveries to customers in million cubic feet (mmcf)</u>	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Change</u>
Retail sales	59,949	61,858	(1,909)	(3.1%)
Transportation	27,148	26,404	744	2.8%
Total	<u>87,097</u>	<u>88,262</u>	<u>(1,165)</u>	<u>(1.3%)</u>
Revenue				
Retail sales	\$ 702	\$ 609	\$ 93	15.3%
Transportation	18	18	—	—
Resales and other	28	18	10	55.6%
Total	<u>\$ 748</u>	<u>\$ 645</u>	<u>\$ 103</u>	<u>16.0%</u>

Results of Operations—Generation

As previously described, effective January 1, 2004, Exelon contributed its interest in Exelon Energy Company to Generation. Exelon Energy Company was previously reported as a part of the Enterprises segment. For comparative discussion and analysis, Exelon Energy Company's results of operations have been included within Generation's results of operations as if this transfer had occurred on January 1, 2003.

	2004	2003	Favorable (Unfavorable)
OPERATING REVENUES	\$7,938	\$8,760	\$ (822)
OPERATING EXPENSES			
Purchased power	2,325	3,630	1,305
Fuel	1,845	2,115	270
Operating and maintenance	2,273	1,886	(387)
Impairment of Boston Generating, LLC long-lived assets	—	945	945
Depreciation and amortization	294	201	(93)
Taxes other than income	171	121	(50)
Total operating expense	<u>6,908</u>	<u>8,898</u>	<u>1,990</u>
OPERATING INCOME (LOSS)	<u>1,030</u>	<u>(138)</u>	<u>1,168</u>
OTHER INCOME AND DEDUCTIONS			
Interest expense	(167)	(89)	(78)
Equity in earnings (losses) of unconsolidated affiliates	(14)	49	(63)
Other, net	143	(267)	410
Total other income and deductions	<u>(38)</u>	<u>(307)</u>	<u>269</u>
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	992	(445)	1,437
INCOME TAXES	<u>372</u>	<u>(190)</u>	<u>(562)</u>
INCOME BEFORE MINORITY INTEREST AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	620	(255)	875
MINORITY INTEREST	<u>21</u>	<u>(4)</u>	<u>25</u>
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	641	(259)	900
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes)	<u>32</u>	<u>108</u>	<u>(76)</u>
NET INCOME (LOSS)	<u>\$ 673</u>	<u>\$ (151)</u>	<u>\$ 824</u>

Net Income (Loss). Generation's net income in 2004 increased from 2003 due to a number of factors. The increase in Generation's 2004 net income was driven primarily by charges incurred in 2003 for the impairment of the long-lived assets of Boston Generating of \$945 million (before income taxes) and the impairment and other transaction-related charges of \$280 million (before income taxes) related to Generation's investment in Sithe. Also, 2004 results were favorably affected by the acquisition of the remaining 50% of AmerGen and an increase in revenue, net of purchased power and fuel expense, primarily due to the decrease in average realized costs resulting from the increased success in the hedging program of fuel costs in 2004.

Cumulative effect of changes in accounting principles recorded in 2004 included a benefit of \$32 million, net of income taxes, related to the adoption of FIN 46-R and in 2003 included income of

\$108 million, net of income taxes related to the of adoption of SFAS No. 143. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further discussion of these effects.

Operating Revenues. Operating revenues decreased in 2004 as compared to 2003, primarily as a result of the adoption of EITF 03-11. The adoption of EITF 03-11 resulted in a decrease in revenues of \$980 million in 2004 as compared with the prior year. Generation's sales in 2004 and 2003 were as follows:

<u>Revenue (in millions)</u>	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Change</u>
Electric sales to affiliates	\$ 3,749	\$ 3,831	\$ (82)	(2.1%)
Wholesale and retail electric sales	3,227	4,107	(880)	(21.4%)
Total energy sales revenue	<u>6,976</u>	<u>7,938</u>	<u>(962)</u>	<u>(12.1%)</u>
Retail gas sales	456	588	(132)	(22.4%)
Trading portfolio	—	1	(1)	(100.0%)
Other revenue ^(a)	506	233	273	117.2%
Total revenue	<u>\$ 7,938</u>	<u>\$ 8,760</u>	<u>\$ (822)</u>	<u>(9.4%)</u>

<u>Sales (in GWhs)</u>	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Change</u>
Electric sales to affiliates	110,465	112,688	(2,223)	(2.0%)
Wholesale and retail electric sales	92,134	112,816	(20,682)	(18.3%)
Total sales	<u>202,599</u>	<u>225,504</u>	<u>(22,905)</u>	<u>(10.2%)</u>

(a) Includes sales related to tolling agreements, including Sithe in 2004, and fossil fuel sales.

Trading volumes of 24,001 GWhs and 32,584 GWhs for the years ended December 31, 2004 and 2003, respectively, are not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2004, which are set by the Exelon Risk Management Committee and approved by the Board of Directors.

Electric Sales to Affiliates. Sales to Energy Delivery declined \$82 million in 2004 as compared to the prior year. The lower sales to Energy Delivery were primarily driven by cooler than normal summer weather and lower average transfer prices in 2004 compared to the prior year.

Wholesale and Retail Electric Sales. The changes in Generation's wholesale and retail electric sales for the year ended December 31, 2004 compared to the same period in 2003, consisted of the following:

<u>Generation</u>	<u>Increase (decrease)</u>
Effects of EITF 03-11 adoption ^(a)	\$(966)
Sale of Boston Generating	(370)
Addition of AmerGen operations	189
Other operations	<u>267</u>
Decrease in wholesale and retail electric sales	<u>\$(880)</u>

(a) Does not include \$14 million of EITF 03-11 reclassifications related to fuel sales that are included in other revenues.

The adoption of EITF 03-11 on January 1, 2004 resulted in the netting of certain revenues and the associated purchase power and fuel expense in 2004. The sale of Boston Generating in May 2004

resulted in less revenues from this entity in 2004 compared to the prior year. The acquisition of AmerGen resulted in increased market and retail electric sales of approximately \$189 million in 2004.

The remaining increase in wholesale and retail electric sales was primarily due to higher volumes sold to the market at overall higher prices. The increase in market prices in the Midwest region was primarily driven by higher coal prices throughout the year, and in the Mid-Atlantic region market prices were driven by higher oil and gas prices.

Retail Gas Sales. Retail gas sales decreased \$132 million as a result of the wind-down of Exelon Energy's northeast business.

Other revenue. Other revenues in 2004 include \$235 million of revenue related to the results of Sithe Energies, Inc. The remaining increase in other revenue includes sales from tolling agreement, fossil fuel and decommissioning revenue.

Purchased Power and Fuel Expense. Generation's supply of sales in 2004 and 2003, excluding the trading portfolio, was as follows:

<u>Supply of Sales (in GWhs)</u>	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Nuclear generation ^(a)	136,621	117,502	16.3%
Purchases—non-trading portfolio ^(b)	48,968	83,692	(41.5%)
Fossil and hydroelectric generation ^(c, d)	17,010	24,310	(30.0%)
Total supply	<u>202,599</u>	<u>225,504</u>	(10.2%)

(a) Excludes AmerGen for 2003. AmerGen generated 20,135 GWhs during the year ended December 31, 2004.

(b) Sales in 2004 do not include 25,464 GWhs that were netted with purchased power GWhs as a result of the reclassification of certain hedging activities in accordance with EITF 03-11. Includes PPAs with AmerGen, which represented 12,667 GWhs in 2003.

(c) Fossil and hydroelectric supply mix changed as a result of decreased fossil fuel generation due to the sale of Boston Generating in May 2004.

(d) Excludes Sithe and Generation's investment in TEG and TEP.

The changes in Generation's purchased power and fuel expense for the year ended December 31, 2004 compared to the same period in 2003, consisted of the following:

<u>Generation</u>	<u>Increase (decrease)</u>
Effects of the adoption of EITF 03-11	\$ (980)
Addition of AmerGen operations	(344)
Sale of Boston Generating	(290)
Midwest Generation	(122)
Price	(13)
Mark-to-market adjustments on hedging activity	(14)
Volume	267
Sithe Energies, Inc.	165
Other	(244)
Decrease in purchased power and fuel expense	<u>\$(1,575)</u>

Adoption of EITF 03-11. The adoption of EITF 03-11 resulted in a decrease in purchased power and fuel expense of \$980 million.

Addition of AmerGen Operations. As a result of Generation's acquisition of the remaining 50% interest in AmerGen in December 2003, purchased power decreased \$379 million. In prior periods, Generation reported energy purchased from AmerGen as purchased power expense. The decrease in purchase power was offset by an increase of \$35 million related to AmerGen's nuclear fuel expense.

Sale of Boston Generating. The decrease in fuel and purchased power expense for Boston Generating is due primarily to the sale of the business in May 2004.

Midwest Generation. The volume of purchased power acquired from Midwest Generation declined in 2004 as a result of Generation exercising its option to reduce the capacity purchased from Midwest Generation, as announced in 2003.

Price. The decrease reflects the forward hedging of fuel at lower costs than 2003 realized costs.

Hedging Activity. Mark-to-market losses on hedging activities at Generation were \$2 million for the year ended December 31, 2004 compared to losses of \$16 million for 2003. Hedging activities in 2004 relating to Boston Generating operations accounted for a gain of \$4 million and hedging activities relating to other Generation operations in 2004 accounted for losses of \$6 million.

Volume. Generation experienced increases in purchased power and fuel expense due to increased market and retail electric sales throughout its various sales regions.

Sithe Energies, Inc. Under the provisions of FIN 46-R, the operating results of Sithe were included in Generation's results of operations beginning April 1, 2004. See Note 3 of Exelon's Notes to Consolidated Financial Statements for further discussion of Sithe.

Other. Other decreases in purchased power and fuel expense were primarily due to \$157 million of lower fuel expense due to the wind-down of Exelon Energy's northeast business and \$97 million of lower transmission expense resulting from reduced inter-region transmission charges, primarily associated with ComEd's integration into PJM.

Generation's average margins per megawatt hour (MWh) sold for the years ended December 31, 2004 and 2003 were as follows:

<u>(\$/MWh)</u>	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Average revenue			
Electric sales to affiliates	\$33.94	\$34.00	(0.2%)
Wholesale and retail electric sales	35.03	36.40	(3.8%)
Total—excluding the trading portfolio	34.43	35.20	(2.2%)
Average supply cost—excluding the trading portfolio ^(a)	20.59	25.48	(19.2%)
Average margin—excluding the trading portfolio	13.84	9.72	42.4%

(a) Average supply cost includes purchased power, fuel costs and PPAs with AmerGen in 2003.

Impairment of the Long-Lived Assets of Boston Generating. In connection with the decision to transition out of the ownership of Boston Generating during the third quarter of 2003, Generation recorded a long-lived asset impairment charge of \$945 million (\$573 million net of income taxes). See Note 2 of Exelon's Notes to Consolidated Financial Statements for further discussion of the sale of Generation's ownership interest in Boston Generating.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2004 compared to 2003 consisted of the following:

<u>Generation</u>	<u>Increase (decrease)</u>
Addition of AmerGen operations	\$331
Sithe Energies, Inc.	71
Decommissioning related costs ^(a)	50
Refueling outage costs ^(b)	50
Pension, payroll and benefit costs, primarily associated with The Exelon Way	(84)
DOE Settlement ^(c)	(52)
Sale of Boston Generating	(12)
Other	33
Increase in operating and maintenance expense	<u>\$387</u>

(a) Includes \$40 million due to AmerGen asset retirement obligation accretion.

(b) Includes refueling outage cost of \$43 million at AmerGen.

(c) See Note 14 of Exelon's Notes to Consolidated Financial Statements for further discussion of the spent nuclear fuel storage settlement agreement with the DOE.

The increase in operating and maintenance expense is primarily due to the inclusion of AmerGen and Sithe Energies, Inc. in Generation's consolidated results for 2004. Decommissioning related costs increased primarily due to the inclusion of AmerGen in 2004 compared to the prior year. Accretion expense includes accretion of the asset retirement obligation and adjustments to offset the earnings impacts of certain decommissioning related activities revenues earned from ComEd and PECO, income taxes, and depreciation of the ARC asset to zero. The increase in operating and maintenance expense was partially offset by a reductions in payroll-related costs due to the implementation of the programs associated with The Exelon Way, the sale of Boston Generating in May 2004 and the settlement with the DOE to reimburse Generation for costs associated with storage of spent nuclear fuel.

Nuclear fleet operating data and purchased power costs data for the year ended December 31, 2004 and 2003 were as follows:

<u>Generation</u>	<u>2004</u>	<u>2003</u>
Nuclear fleet capacity factor ^(a)	93.5%	93.4%
Nuclear fleet production cost per MWh ^(a)	\$ 12.43	\$ 12.53
Average purchased power cost for wholesale operations per MWh ^(b)	\$ 47.48	\$ 43.17

(a) Includes AmerGen and excludes Salem, which is operated PSEG Nuclear.

(b) Includes PPAs with AmerGen in 2003.

The higher nuclear capacity factor and lower nuclear production costs are primarily due to ten fewer unplanned outages which offset the impact of one additional planned refuel outage. The lower production cost in 2004 as compared to 2003 is primarily due to the lower fuel costs and the impact of the spent fuel storage cost settlement agreement with the DOE which offset the added cost for one additional planned refuel outage and costs associated with the Dresden generator repairs during outages in the fourth quarter of 2004.

In 2004 as compared to 2003, the Quad Cities units intermittently operated at pre-Extended Power Uprate (EPU) generation levels due to performance issues with their steam dryers. Generation plans additional expenditures to ensure safe and reliable operations at the EPU output levels by mid-2005.

Depreciation and Amortization. The increase in depreciation and amortization expense in 2004 as compared to 2003 was primarily due to the immediate expensing of an ARC, totaling \$49 million, recorded in 2004 for which no useful life remains. The ARC was originally recorded in accordance with SFAS No. 143, which requires the establishment of an asset to offset the impact of an increased asset retirement obligation (ARO). See Note 14 of Exelon's Notes to Consolidated Financial Statements for more information on the 2004 update to the ARO and ARC. The remaining increase is due to capital additions and the consolidation of Sithe and AmerGen. These increase were partially offset by a decrease in depreciation expense related to Boston Generating facilities, which were sold in May 2004.

Effective Income Tax Rate. The effective income tax rate was 37.5% for 2004 compared to 42.7% for 2003. The decrease in the effective rate was primarily attributable to income taxes associated with nuclear decommissioning trust activity, income tax deductions related to non-taxable employee benefits and the dilution of the permanent income tax benefits due to the increase in pre-tax income in 2004.

Results of Operations—Enterprises

As previously described, effective January 1, 2004, Enterprises contributed its interest in Exelon Energy Company to Generation. Exelon Energy Company was previously reported as a part of the Enterprises segment. For comparative discussion and analysis, the results of Exelon Energy Company have been excluded from Enterprises' 2003 results of operations discussed below.

	2004	2003	Favorable (unfavorable) variance
Operating revenues	\$155	\$ 923	\$(768)
Operating and maintenance expense	211	1,027	816
Operating loss	(62)	(139)	77
Loss before income taxes, minority interest and cumulative effect of changes in accounting principles	(7)	(187)	180
Loss before cumulative effect of changes in accounting principles	(13)	(117)	104
Net loss	(22)	(118)	96

Divestiture of Businesses and Investments. In 2004, Exelon continued to execute its divestiture strategy for Enterprises by selling or winding down substantially all components of Enterprises. Enterprises expects to receive aggregate proceeds of \$268 million and recorded a net pre-tax gain on the disposition of assets and investments of \$41 million in 2004.

Enterprises' results for 2004 compared to 2003 were significantly affected by the following transactions:

InfraSource, Inc. On September 24, 2003, Enterprises sold the electric construction and services, underground and telecom businesses of InfraSource. Cash proceeds to Enterprises from the sale were approximately \$175 million, net of transaction costs and cash transferred to the buyer upon sale, plus a \$30 million subordinated note receivable maturing in 2011. At the time of closing, the present value of the note receivable was approximately \$12 million. The note was collected in full during the second quarter of 2004, resulting in income of \$18 million.

Exelon Services, Inc. During 2004, Enterprises disposed of or wound down all of the operating businesses of Exelon Services, Inc. (Exelon Services), including Exelon Solutions, all mechanical services businesses and the Integrated Technology Group. Total expected proceeds and the net gain

on sale recorded during 2004 related to the disposition of these businesses were \$61 million and \$9 million, respectively. The gain was recorded in other income and deductions on Exelon's Consolidated Statements of Income. As of December 31, 2004, Exelon Services had assets and liabilities of \$74 million and \$22 million, respectively, which primarily consist of tax assets, affiliate receivables and payables, and sales proceeds to be collected.

Exelon Thermal Holdings Inc. On June 30, 2004, Enterprises sold its Chicago business of Thermal for proceeds of \$134 million, subject to working capital adjustments. Enterprises repaid \$37 million of debt outstanding of the Chicago thermal operations prior to closing, which resulted in prepayment penalties of \$9 million, recorded as interest expense. A pre-tax gain of \$45 million was recorded in other income and deductions on Exelon's Consolidated Statements of Income.

On September 29, 2004, Enterprises sold ETT Nevada, Inc., the holding company for its investment in Northwind Aladdin, LLC, for a net cash outflow of \$1 million, subject to working capital adjustments. A pre-tax loss of \$3 million was recorded in other income and deductions within Exelon's Consolidated Statements of Income inclusive of the acquisition and sale of Northwind Aladdin's third-party debt associated with the transaction.

On October 28, 2004, Northwind Windsor, of which Enterprises owns a 50% interest, sold substantially all of its assets, providing Enterprises with cash proceeds of \$8 million. A pre-tax gain of \$2 million was recorded in other income and deductions on Exelon's Consolidated Statements of Income.

PECO Telcove. On June 30, 2004, Enterprises sold its investment in PECO TelCove, a communications joint venture, along with certain telecommunications assets, for proceeds of \$49 million. A pre-tax gain of \$9 million was recorded in other income and deductions on Exelon's Consolidated Statements of Income.

At December 1, 2004, the remaining assets of Enterprises totaled approximately \$274 million in comparison to \$697 million at December 31, 2003.

Net Loss. The decrease in Enterprises' net loss before cumulative effect of changes in accounting principles in 2004 was primarily due to a decrease in operating and maintenance expense, partially offset by a decrease in operating revenues. Depreciation and amortization expense decreased \$23 million before income taxes from 2003 to 2004 primarily as a result of the sale of the majority of property, plant and equipment since September 2003. In 2004, Enterprises recorded impairment charges of investments of \$15 million before income taxes due to other-than-temporary declines in value, partially offset by 2003 charges for impairment of investments of \$46 million before income taxes and a net impairment of other assets of \$8 million before income taxes. The adoption of EITF 03-16 increased the 2004 net loss by \$9 million. The adoption of SFAS No. 143 increased the 2003 net loss by \$1 million, net of income taxes. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further discussion of the adoption of EITF 03-16 and SFAS No. 142.

Operating Revenues. The changes in Enterprises' operating revenues for 2004 compared to 2003 consisted of the following:

	<u>Variance</u>
F & M Holdings, LLC / InfraSource businesses ^(a)	\$(493)
Exelon Services ^(a)	(259)
Exelon Thermal ^(a)	(17)
Other	1
Decrease in operating revenues	<u>\$(768)</u>

(a) Operating revenues decreased as a result of the sale of certain businesses and wind-down efforts.

Operating and Maintenance Expense. The changes in Enterprises' operating and maintenance expense for 2004 compared to 2003 consisted of the following:

	<u>Variance</u>
F & M Holdings, LLC / InfraSource businesses (a)	\$(503)
Exelon Services (a)	(276)
Exelon Thermal (a)	(10)
Other	<u>(27)</u>
Decrease in operating and maintenance expense	<u><u>\$(816)</u></u>

(a) Operating and maintenance expense decreased as a result of the sale of certain businesses and wind-down efforts.

Effective Income Tax Rate. The effective income tax rate was (85.7%) for 2004 compared to 37.4% for 2003. This change in the effective tax rate was primarily attributable to the reversal of a large income tax receivable at F&M Holdings, LLC in the fourth quarter of 2004, the state tax impact on the gains on the sales of Exelon Thermal's Chicago businesses and certain investments, and various other income tax adjustments primarily associated with the sale of Enterprise businesses.

Results of Operations—Exelon Corporation

Year Ended December 31, 2003 Compared To Year Ended December 31, 2002

Significant Operating Trends—Exelon

<u>Exelon Corporation</u>	<u>2003</u>	<u>2002</u>	<u>Favorable (unfavorable) variance</u>
Operating revenues	\$15,812	\$14,955	\$ 857
Purchased power and fuel expense	6,375	5,262	(1,113)
Impairment of Boston Generating, LLC long-lived assets	945	—	(945)
Operating and maintenance expense	4,508	4,345	(163)
Operating income	2,277	3,299	(1,022)
Other income and deductions	(1,148)	(627)	(521)
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	1,129	2,672	(1,543)
Income before cumulative effect of changes in accounting principles	793	1,674	(881)
Income taxes	331	998	667
Net income	905	1,440	(535)
Diluted earnings per share	1.38	2.22	(0.84)

Net Income. Net income for 2003 reflects income of \$112 million, net of income taxes, for the adoption of SFAS No. 143, while net income for 2002 reflects a \$230 million charge, net of income taxes, as a result of the adoption of SFAS No. 142. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further information regarding the adoptions of SFAS No. 143 and SFAS No. 142.

Operating Revenues. Operating revenues increased in 2003 primarily due to increased market sales at Generation due to generating assets acquired in 2002 and higher wholesale market prices in 2003. Total market sales at Generation, excluding the trading portfolio, increased from 88,985 GWhs in 2002 to 112,816 GWhs in 2003, and the average revenue per MWh on Generation's market sales, excluding the trading portfolio, increased from \$32.36 in 2002 to \$35.20 in 2003. This increase in operating revenues was partially offset by a decrease in Energy Delivery's revenues of \$255 million primarily due to unfavorable weather impacts and an increase in customers selecting an alternative electric supplier or ComEd's PPO. Enterprises also experienced a \$413 million reduction in operating revenues from 2002 to 2003, primarily due to the sale of InfraSource during the third quarter of 2003. See further discussion of operating revenues by segment below.

Purchased Power and Fuel Expense. Purchased power and fuel expense increased in 2003 primarily due to generating assets acquired in 2002 and higher market prices for purchased power in 2003. The average cost per MWh supplied by Generation, excluding the trading portfolio, increased from \$22.51 in 2002 to \$25.48 in 2003 due to increased fossil generation and increased purchased power at higher market prices. Fossil and hydroelectric generation represented 11% of Generation's total supply in 2003 compared to 6% in 2002. See further discussion of purchased power and fuel expense by segment below.

Impairment of the Long-Lived Assets of Boston Generating. Generation recorded a \$945 million charge (before income taxes) during 2003 to impair the long-lived assets of Boston Generating.

Operating and Maintenance Expense. Operating and maintenance expense increased in 2003 primarily due to a change in the accounting methodology for nuclear decommissioning, severance and severance-related costs associated with The Exelon Way, and increased costs at Generation

associated with generating assets acquired in 2002. Partially offsetting these increases was an overall reduction in operating and maintenance expenses at Enterprises, primarily due to the sale of InfraSource during the third quarter of 2003. See further discussion of operating and maintenance expenses by segment below.

Operating Income. The decrease in operating income, exclusive of the changes in operating revenues, purchased power and fuel expense, Boston Generating long-lived asset impairment charge and operating and maintenance expense discussed above, was primarily due to a decrease of \$214 million in depreciation and amortization expense primarily due to the adoption of SFAS No. 143 and lower depreciation and amortization expense in the Energy Delivery segment. In addition, taxes other than income also decreased by \$128 million primarily due to a reduction in reserves for real estate taxes within the Energy Delivery and Generation segments.

Other Income and Deductions. Other income and deductions changed primarily due to impairment and other transaction-related charges of \$280 million recorded in 2003 related to Generation's investment in Sithe. Interest expense decreased 9% from \$966 million in 2002 to \$881 million in 2003 primarily due to less outstanding debt and refinancing of existing debt at lower interest rates at Energy Delivery partially offset by increased interest expense at Generation due to debt related to 2002 acquisitions and reduced capitalized interest in 2003. In 2002, Enterprises recorded a gain on the sale of its investment in AT&T Wireless of \$198 million (before income taxes).

Effective Income Tax Rate. The effective income tax rate was 29.3% for 2003 compared to 37.4% for 2002. The decrease in the effective rate was primarily attributable to a decrease in state income taxes, net of Federal income tax benefit, and investments in synthetic fuel-producing facilities made in the fourth quarter of 2003.

Results of Operations by Business Segment

The comparisons of 2003 and 2002 operating results and other statistical information set forth below reflect intercompany transactions, which are eliminated in the consolidated financial statements.

Transfer of Exelon Energy Company from Enterprises to Generation. Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation. The information for 2003 and 2002 related to the Generation and Enterprises segments discussed below has been adjusted to reflect the transfer of Exelon Energy Company from the Enterprises segment to the Generation segment. Exelon Energy Company's 2003 and 2002 results were as follows:

	<u>2003</u>	<u>2002</u>
Total revenues	\$834	\$697
Intersegment revenues	4	8
Operating revenue and purchased power from affiliates	209	235
Depreciation and amortization	2	16
Operating expenses	857	700
Interest expense	1	4
Cumulative effect of changes in accounting principles	—	(11)
Loss before income taxes	(29)	(6)
Income taxes	(11)	16
Net loss	(18)	(33)

Income (Loss) Before Cumulative Effect of Changes in Accounting Principles by Business Segment

	2003	2002	Favorable (unfavorable) variance
Energy Delivery	\$1,170	\$1,268	\$ (98)
Generation	(259)	365	(624)
Enterprises	(117)	87	(204)
Corporate	(1)	(50)	49
Total	<u>\$ 793</u>	<u>\$1,670</u>	<u>\$(877)</u>

Net Income (Loss) by Business Segment

	2003	2002	Favorable (unfavorable) variance
Energy Delivery	\$1,175	\$1,268	\$ (93)
Generation	(151)	367	(518)
Enterprises	(118)	(145)	27
Corporate	(1)	(50)	49
Total	<u>\$ 905</u>	<u>\$1,440</u>	<u>\$(535)</u>

Results of Operations—Energy Delivery

	2003	2002	Favorable (unfavorable) variance
OPERATING REVENUES	\$10,202	\$10,457	\$(255)
OPERATING EXPENSES			
Purchased power and fuel expense	4,597	4,602	5
Operating and maintenance	1,669	1,486	(183)
Depreciation and amortization	873	978	105
Taxes other than income	440	531	91
Total operating expense	<u>7,579</u>	<u>7,597</u>	<u>18</u>
OPERATING INCOME	<u>2,623</u>	<u>2,860</u>	<u>(237)</u>
OTHER INCOME AND DEDUCTIONS			
Interest expense	(747)	(854)	107
Distributions on mandatorily redeemable preferred securities	(39)	(45)	6
Equity in income of unconsolidated affiliates	—	1	(1)
Other, net	51	71	(20)
Total other income and deductions	<u>(735)</u>	<u>(827)</u>	<u>92</u>
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,888	2,033	(145)
INCOME TAXES	718	765	47
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,170	1,268	(98)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	5	—	5
NET INCOME	<u>\$ 1,175</u>	<u>\$ 1,268</u>	<u>\$ (93)</u>

Net Income. Energy Delivery's net income in 2003 decreased primarily due to increased operating and maintenance expense resulting from severance and curtailment charges associated with The Exelon Way, a charge at ComEd associated with a regulatory settlement, lower revenues, net of purchased power primarily attributable to weather and higher purchased power prices, partially offset by reductions in depreciation and amortization expense, taxes other than income, and interest expense.

Operating Revenues. The changes in Energy Delivery's operating revenues for 2003 compared to 2002 consisted of the following:

<u>Energy Delivery</u>	<u>Electric</u>	<u>Gas</u>	<u>Total increase (decrease)</u>
Customer choice	\$(167)	\$—	\$(167)
Weather	(229)	71	(158)
Resales and other	—	(22)	(22)
Rate changes and mix	(58)	51	(7)
Volume	118	(3)	115
Other effects	(15)	(1)	(16)
(Decrease) increase in operating revenues	<u>\$(351)</u>	<u>\$ 96</u>	<u>\$(255)</u>

Customer Choice. For 2003 and 2002, 25% and 21%, respectively, of energy delivered to Energy Delivery's retail customers was provided by an alternative electric supplier or under the ComEd PPO. The decrease in electric retail revenues attributable to customer choice included a decrease in revenues of \$155 million from customers in Illinois electing to purchase energy from an alternative electric supplier and a decrease in revenues of \$12 million from customers in Pennsylvania selecting or being assigned to an alternative electric generation supplier.

Weather. Energy Delivery's electric revenues were affected by cooler summer weather in 2003, partially offset by colder winter weather in the first quarter of 2003. Cooling degree-days in the ComEd and PECO service territories were 36% lower and 21% lower, respectively, in 2003 as compared to 2002. Heating degree-days in the ComEd and PECO service territories were 5% higher and 16% higher, respectively, in 2003 as compared to 2002.

Energy Delivery's gas revenues were affected by colder winter weather in the first quarter of 2003.

Resales and Other. Energy Delivery's gas revenues decreased as a result of a decrease in off-system sales, exchanges and capacity releases.

Rate Changes and Mix. Energy Delivery's electric revenues decreased \$33 million at ComEd primarily due to decreased average energy rates under ComEd's PPO as a result of lower wholesale market prices. Electric revenues decreased \$25 million at PECO as a result of rate mix due to changes in monthly usage patterns in all customer classes during 2003 as compared to 2002.

Energy Delivery's gas revenues increased due to increases in rates through the purchased gas adjustment clause that became effective March 1, 2003, June 1, 2003 and December 1, 2003. The average purchased gas cost rate per million cubic feet for 2003 was 11% higher than the rate in 2002. PECO's purchased gas cost rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between the actual cost of purchased gas and the amount included in rates.

Volume. Energy Delivery's electric revenues increased as a result of higher delivery volume, exclusive of the effects of weather and customer choice, due to an increased number of customers and increased usage per customer, primarily in the large and small commercial and industrial customer classes.

Other. The decrease was attributable to a reduction in wholesale revenue. This reduction reflects a \$12 million reimbursement from Generation in 2002.

Purchased Power and Fuel Expense. The changes in Energy Delivery's purchased power and fuel expense for 2003 compared to 2002 consisted of the following:

<u>Energy Delivery</u>	<u>Electric</u>	<u>Gas</u>	<u>Total increase (decrease)</u>
Customer choice	\$(143)	\$—	\$(143)
Weather	(119)	49	(70)
Resales and other	—	(28)	(28)
Prices	74	39	113
Volume	73	6	79
Decommissioning	62	—	62
Other	(23)	5	(18)
(Decrease) increase in purchased power and fuel expense	<u>\$ (76)</u>	<u>\$ 71</u>	<u>\$ (5)</u>

Customer Choice. An increase in customer switching resulted in a reduction of purchased power expense, primarily due to ComEd's non-residential customers electing to purchase energy from an alternative electric supplier or ComEd's PPO and PECO's non-residential customers electing or being assigned to purchase energy from alternative energy suppliers.

Weather. Energy Delivery's purchased power and fuel expense decreased due to the impacts of cooler summer weather in 2003, partially offset by colder winter weather in the first quarter of 2003.

Resales and other. Energy Delivery's fuel expense decreased as a result of reduced resale transactions.

Prices. Energy Delivery's purchased power increased for electric due to an increase in the weighted average on-peak/off-peak cost of electricity at ComEd, and fuel expense for gas increased due to PECO's higher gas prices.

Volume. Energy Delivery's purchased power and fuel expense increased due to increases, exclusive of the effect of weather, in the number of customers and average usage per customer, primarily large and small commercial and industrial customers at ComEd and PECO.

Decommissioning. ComEd changed its presentation for accounting for decommissioning collections upon the adoption of SFAS No. 143 (see Note 14 of Exelon's Notes to Consolidated Financial Statements). Decommissioning collections, which are remitted to Generation, were previously recorded as amortization expense and are recorded as purchased power expense in 2003.

Other. Energy Delivery's purchased power decreased due to additional energy billed in 2002 under the purchase power agreement (PPA) with Generation discussed in other operating revenues above.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2003 compared to 2002 consisted of the following:

<u>Energy Delivery</u>	<u>Increase (decrease)</u>
Severance, pension and postretirement benefit costs associated with The Exelon Way	\$167
Charge recorded at ComEd in 2003 associated with a regulatory settlement ^(a)	41
Increased storm costs	36
Increased employee fringe benefits primarily due to increased health care costs	23
Decreased payroll expense due to fewer employees	(93)
Decreased costs associated with the initial implementation of automated meter reading services at PECO in 2002	(13)
Other	22
Increase in operating and maintenance expense	<u>\$183</u>

(a) For more information regarding the settlement, see Note 5 of Exelon's Notes to Consolidated Financial Statements.

Depreciation and Amortization Expense. The reduction in depreciation and amortization expense was primarily due to a change in the accounting for nuclear decommissioning at ComEd, lower amortization of ComEd's recoverable transition costs of \$58 million and a \$48 million reduction due to changes in ComEd's depreciation rates in 2002, partially offset by increased depreciation of \$30 million due to capital additions across Energy Delivery and increased competitive transition charge amortization of \$28 million at PECO.

Taxes Other Than Income. The reduction in taxes other than income was primarily due to a reduction of real estate tax accruals recorded by PECO of \$58 million during the third quarter of 2003 and a favorable settlement of coal use tax at ComEd of \$25 million. See Note 20 of Exelon's Notes to Consolidated Financial Statements for further information regarding the reduction of real estate tax accruals recorded by PECO.

Interest Expense. The reduction in interest expense was primarily due to refinancing existing debt at lower rates and the pay down of transitional trust notes.

Energy Delivery Operating Statistics and Revenue Detail

Energy Delivery's electric sales statistics and revenue detail were as follows:

<u>Retail Deliveries—(in GWhs) ^(a)</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Full service ^(b)				
Residential	37,564	37,839	(275)	(0.7%)
Small commercial & industrial	28,165	29,971	(1,806)	(6.0%)
Large commercial & industrial	20,660	22,652	(1,992)	(8.8%)
Public authorities & electric railroads	6,022	7,332	(1,310)	(17.9%)
Total full service	<u>92,411</u>	<u>97,794</u>	<u>(5,383)</u>	<u>(5.5%)</u>
Delivery only ^(c)				
Residential	900	1,971	(1,071)	(54.3%)
Small commercial & industrial	7,461	5,634	1,827	32.4%
Large commercial & industrial	10,689	7,652	3,037	39.7%
Public authorities & electric railroads	1,402	913	489	53.6%
Total delivery only	<u>20,452</u>	<u>16,170</u>	<u>4,282</u>	<u>26.5%</u>
PPO (ComEd only)				
Small commercial & industrial	3,318	3,152	166	5.3%
Large commercial & industrial	4,348	5,131	(783)	(15.3%)
Public authorities & electric railroads	1,925	1,346	579	43.0%
Total PPO	<u>9,591</u>	<u>9,629</u>	<u>(38)</u>	<u>(0.4%)</u>
Total delivery only and PPO deliveries	<u>30,043</u>	<u>25,799</u>	<u>4,244</u>	<u>16.5%</u>
Total retail deliveries	<u><u>122,454</u></u>	<u><u>123,593</u></u>	<u><u>(1,139)</u></u>	<u><u>(0.9%)</u></u>

(a) One gigawatthour is the equivalent of one million kilowatthours (kWh).

(b) Full service reflects deliveries to customers taking electric service under tariffed rates.

(c) Delivery only reflects service from customers electing to receive electric generation service from an alternative electric supplier, which rates include a distribution charge and a CTC.

<u>Electric Revenue</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Full service ^(a)				
Residential	\$3,715	\$3,719	\$ (4)	(0.1%)
Small commercial & industrial	2,421	2,601	(180)	(6.9%)
Large commercial & industrial	1,394	1,496	(102)	(6.8%)
Public authorities & electric railroads	396	456	(60)	(13.2%)
Total full service	<u>7,926</u>	<u>8,272</u>	<u>(346)</u>	<u>(4.2%)</u>
Delivery only ^(b)				
Residential	65	145	(80)	(55.2%)
Small commercial & industrial	214	159	55	34.6%
Large commercial & industrial	196	170	26	15.3%
Public authorities & electric railroads	33	28	5	17.9%
	<u>508</u>	<u>502</u>	<u>6</u>	<u>1.2%</u>
PPO (ComEd only) ^(c)				
Small commercial & industrial	225	204	21	10.3%
Large commercial & industrial	240	278	(38)	(13.7%)
Public authorities & electric railroads	103	71	32	45.1%
	<u>568</u>	<u>553</u>	<u>15</u>	<u>2.7%</u>
Total delivery only and PPO	<u>1,076</u>	<u>1,055</u>	<u>21</u>	<u>2.0%</u>
Total electric retail revenues	<u>9,002</u>	<u>9,327</u>	<u>(325)</u>	<u>(3.5%)</u>
Wholesale and miscellaneous revenue ^(d)	555	581	(26)	(4.5%)
Total electric revenue	<u>\$9,557</u>	<u>\$9,908</u>	<u>\$(351)</u>	<u>(3.5%)</u>

- (a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy. PECO's tariffed rates also include a CTC. See Note 5 of Exelon's Notes to Consolidated Financial Statements for a discussion of CTC.
- (b) Delivery only revenue reflects revenue under tariffed rates from customers electing to receive electric generation service from an alternative electric supplier, which rates include a distribution charge and a CTC.
- (c) Revenues from customers choosing ComEd's PPO include an energy charge at market rates, transmission and distribution charges, and a CTC. Prior to ComEd's full integration into PJM on May 1, 2004, ComEd's transmission charges received from alternative electric suppliers were included in wholesale and miscellaneous revenue.
- (d) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

Energy Delivery's gas sales statistics and revenue detail were as follows:

<u>Deliveries to customers in million cubic feet (mmcf)</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Retail sales	61,858	54,782	7,076	12.9%
Transportation	26,404	30,763	(4,359)	(14.2%)
Total	<u>88,262</u>	<u>85,545</u>	<u>2,717</u>	<u>3.2%</u>
<u>Revenue</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Retail sales	\$ 609	\$ 490	\$ 119	24.3%
Transportation	18	19	(1)	(5.3%)
Resales and other	18	40	(22)	(55.0%)
Total	<u>\$ 645</u>	<u>\$ 549</u>	<u>\$ 96</u>	<u>17.5%</u>

Results of Operations—Generation

As previously described, effective January 1, 2004, Exelon contributed its interest in Exelon Energy Company to Generation. Exelon Energy Company was previously reported as a part of the Enterprises segment. For comparative discussion and analysis, Exelon Energy Company's results of operations have been included within Generation's results of operations as if this transfer had occurred on January 1, 2002.

	2003	2002	Favorable (unfavorable) variance
OPERATING REVENUES	\$8,760	\$7,320	\$ 1,440
OPERATING EXPENSES			
Purchased power	3,630	3,298	(332)
Fuel	2,115	1,372	(743)
Operating and maintenance	1,886	1,686	(200)
Impairment of Boston Generating, LLC long-lived assets	945	—	(945)
Depreciation and amortization	201	292	91
Taxes other than income	121	166	45
Total operating expense	<u>8,898</u>	<u>6,814</u>	<u>(2,084)</u>
OPERATING INCOME (LOSS)	<u>(138)</u>	<u>506</u>	<u>(644)</u>
OTHER INCOME AND DEDUCTIONS			
Interest expense	(89)	(79)	(10)
Equity in earnings of unconsolidated affiliates	49	87	(38)
Other, net	(267)	87	(354)
Total other income and deductions	<u>(307)</u>	<u>95</u>	<u>(402)</u>
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>(445)</u>	<u>601</u>	<u>(1,046)</u>
INCOME TAXES	<u>(190)</u>	<u>233</u>	<u>423</u>
INCOME (LOSS) BEFORE MINORITY INTEREST AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>(255)</u>	<u>368</u>	<u>(623)</u>
MINORITY INTEREST	<u>(4)</u>	<u>(3)</u>	<u>(1)</u>
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>(259)</u>	<u>365</u>	<u>(624)</u>
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes)	<u>108</u>	<u>2</u>	<u>106</u>
NET INCOME (LOSS)	<u>\$ (151)</u>	<u>\$ 367</u>	<u>\$ (518)</u>

Net Income (Loss). The decrease in Generation's net income in 2003 as compared to 2002 was primarily due to an impairment charge of \$945 million before income taxes recorded in 2003 related to the long-lived assets of Boston Generating, impairment and other transaction-related charges of \$280 million before income taxes recorded in 2003 related to Generation's investment in Sithe, and increased operating and maintenance expenses, partially offset by an increase in operating revenues net of purchased power and fuel expense. Generation also experienced an increase in its effective tax rate.

Cumulative effect of changes in accounting principles recorded in 2003 and 2002 included income of \$108 million, net of income taxes, recorded in 2003 related to the of adoption of SFAS No. 143 and

income of \$2 million, net of income taxes, recorded in 2002 related to the adoption of SFAS No. 142. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further discussion of these effects.

Operating Revenues. Operating revenues increased in 2003 as compared to 2002. Generation's sales in 2003 and 2002 were as follows:

<u>Revenue (in millions)</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Electric sales to affiliates	\$ 3,831	\$ 3,978	\$ (147)	(3.7%)
Wholesale and retail electric sales	4,107	2,736	1,371	50.1%
Total energy sales revenue	7,938	6,714	1,224	18.2%
Retail gas sales	588	451	137	30.4%
Trading portfolio	1	(29)	30	(103.4%)
Other revenue (a)	233	184	49	26.6%
Total revenue	<u>\$ 8,760</u>	<u>\$ 7,320</u>	<u>\$ 1,440</u>	<u>19.7%</u>

<u>Sales (in GWhs)</u>	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Change</u>
Electric sales to affiliates	112,688	118,473	(5,785)	(4.9%)
Wholesale and retail electric sales	112,816	88,985	23,831	26.8%
Total sales	<u>225,504</u>	<u>207,458</u>	<u>18,046</u>	<u>8.7%</u>

(a) Includes sales related to tolling agreements and fossil fuel sales.

Trading volumes of 32,584 GWhs and 69,933 GWhs for the years ended December 31, 2003 and 2002, respectively, are not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2003, which are set by the Exelon Risk Management Committee and approved by the Board of Directors.

Electric Sales to Affiliates. Sales to affiliates decreased primarily due to lower volume sales to ComEd, offset by slightly higher realized prices. Sales to PECO were lower, primarily due to lower realized prices, partially offset by slightly higher volumes.

Wholesale and Retail Electric Sales. Sales volume in the wholesale spot and bilateral markets increased primarily due to the acquisition of Exelon New England in November 2002 and the commencement of commercial operations in 2003 of the Boston Generating facilities, Mystic 8 and 9 and Fore River. In addition, average market prices were \$5/MWh higher than 2002.

Retail Gas Sales. Retail gas sales at Exelon Energy increased \$97 million due to higher gas prices in 2003. In addition, customer growth in the gas and electric markets increased revenues by \$69 million and \$40 million, respectively. These increases were partially offset by the discontinuance of retail sales in the PJM region of \$40 million and the wind-down of the Northeast operations of \$29 million.

Trading Revenues. Trading activity increased revenue by \$1 million in 2003 compared to a reduction in revenue of \$29 million in 2002 due to an increase in gas prices in April 2002, which negatively affected Generation's trading positions.

Other. Revenues also increased in 2003 as compared to 2002, as a result of a \$76 million increase in sales of excess fossil fuel. The increased excess fossil fuel is a result of generating plants in the Texas and New England regions operating at less than projected levels. Also, revenue increased by \$62 million due to higher decommissioning revenue received from ComEd in 2003 compared to 2002.

Purchased Power and Fuel Expense. Generation's supply of sales in 2003 and 2002, excluding the trading portfolio, was as follows:

<u>Supply of Sales (in GWhs)</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Nuclear generation ^(a)	117,502	115,854	1.4%
Purchases—non-trading portfolio ^(b)	83,692	78,628	6.4%
Fossil and hydroelectric generation	24,310	12,976	87.3%
Total supply	<u>225,504</u>	<u>207,458</u>	8.7%

(a) Excluding AmerGen.

(b) Including purchase power agreements with AmerGen.

Generation's supply mix changed as a result of increased nuclear generation due to a lower number of refueling and unplanned outages during 2003 as compared to 2002, increased fossil generation due to the Exelon New England plants acquired in November 2002, including plants under construction which became operational in the second and third quarters of 2003 and account for an increase of 8,426 GWhs. Additionally, the change included additional purchased power of 3,320 GWhs from Exelon New England, a new PPA with AmerGen which increased purchased power by 3,049 GWhs in the second quarter of 2003 and 11,989 GWhs of other miscellaneous power purchases, which more than offset a 14,208 GWhs reduction in purchased power from Midwest Generation.

The changes in Generation's purchased power and fuel expense for 2003 compared to 2002 consisted of the following:

<u>Generation</u>	<u>Increase</u>
Exelon New England	\$ 429
Prices	350
Volume	46
Hedging activity	22
Other	228
Increase in purchased power and fuel expense	<u>\$1,075</u>

Exelon New England. Generation acquired Exelon New England in November 2002 and Mystic Units 8 and 9 began commercial operations during the second quarter of 2003, while Fore River began commercial operations during the third quarter of 2003.

Prices. The increase reflects higher market prices in 2003.

Volume. Purchased power increased in 2003 due to an increase in purchased power from AmerGen under a June 2003 PPA to purchase 100% of the output of Oyster Creek. Prior to the June 2003 PPA, Generation did not purchase power from Oyster Creek. Fuel expense increased due to increases in fossil fuel generation required to meet the increased market demand for energy and the acquisition of generating plants in Texas in April 2002.

Hedging Activity. Mark-to-market losses on hedging activities were \$16 million in 2003 compared to a gain of \$6 million in 2002.

Other. Other increases in purchased power and fuel were primarily due to \$171 million of higher purchased power and fuel expense at Exelon Energy, additional nuclear fuel amortization of \$16 million in 2003 resulting from under-performing fuel, which was completely replaced in May 2003 at the Quad Cities Unit 1, and \$10 million due to the write-down of coal inventory in 2003 as a result of a fuel burn analysis.

Generation's average margins per MWh sold for the years ended December 31, 2003 and 2002 were as follows:

<u>(\$/MWh)</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Average revenue			
Electric sales to affiliates	\$34.00	\$33.58	1.3%
Wholesale electric sales	36.40	30.75	18.4%
Total—excluding the trading portfolio	35.20	32.36	8.8%
Average supply cost—excluding the trading portfolio ^(a)	25.48	22.51	13.2%
Average margin—excluding the trading portfolio	9.72	9.85	(1.3%)

(a) Average supply cost includes purchased power, fuel costs and PPAs with AmerGen in 2003.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2003 compared to 2002 consisted of the following:

<u>Generation</u>	<u>Increase (decrease)</u>
2003 asset impairment charge related to long-lived assets of Boston Generating	\$ 945
Adoption of SFAS No. 143 ^(a)	118
Increased costs due to generating asset acquisitions in 2002	78
Severance, pension and postretirement benefit costs associated with The Exelon Way	60
Increased employee fringe benefits primarily due to increased health care costs	54
Decreased refueling outage costs ^(b)	(49)
2002 executive severance	(19)
Other	(42)
Increase in operating and maintenance expense	<u>\$1,145</u>

(a) Due to a reclassification of decommissioning-related expenses upon the adoption of SFAS No. 143.

(b) Includes cost savings of \$19 million related to one of Generation's co-owned facilities. Refueling outage days, not including Generation's co-owned facilities, decreased from 202 in 2002 to 157 in 2003.

The increase in operating and maintenance expense is primarily due to the decision to transition out of the ownership of Boston Generating during the third quarter of 2003. Generation recorded a long-lived asset impairment charge of \$945 million (\$573 million net of income taxes) in the third quarter of 2003. The remaining increase is due to payroll-related costs due to implementation of the programs associated with The Exelon Way, costs incurred due to generating asset acquisitions made in 2002, partially offset by lower refueling outage costs.

Nuclear fleet operating data and purchased power costs data for the year ended December 31, 2003 and 2002 were as follows:

<u>Generation</u>	<u>2003</u>	<u>2002</u>
Nuclear fleet capacity factor ^(a)	93.4%	92.7%
Nuclear fleet production cost per MWh ^(a)	\$ 12.53	\$ 13.00
Average purchased power cost for wholesale operations per MWh ^(b)	\$ 43.17	\$ 41.94

(a) Including AmerGen and excluding Salem, which is operated by PSEG Nuclear.

(b) Including PPAs with AmerGen.

The higher nuclear capacity factor and decreased production costs are primarily due to 56 fewer planned refueling outage days in 2003 as compared to 2002, resulting in a \$36 million decrease in refueling outage costs, including a \$6 million decrease related to AmerGen. The years ended December 31, 2003 and 2002 included 30 and 26 unplanned outages, respectively, resulting in a \$2 million increase in non-refueling outage costs in 2003 as compared to 2002.

Depreciation and Amortization. The decrease in depreciation and amortization expense in 2003 as compared to 2002 was primarily attributable to a \$130 million reduction in decommissioning expense net of ARC depreciation, as these costs are included in operating and maintenance expense after the adoption of SFAS No. 143, and a \$12 million decrease due to life extensions of assets acquired in 2002. The decrease was partially offset by \$65 million of additional depreciation expense on capital additions placed in service in 2002, of which \$18 million of expense is related to plant acquisitions made after the third quarter of 2002.

Effective Income Tax Rate. The effective income tax rate was 42.7% for 2003 compared to 38.8% for 2002. This increase was primarily attributable to the impairment charges recorded in 2003 related to the long-lived assets of Boston Generating and Generation's investment in Sithe that resulted in a pre-tax loss. Other adjustments that affected income taxes include a decrease in tax-exempt interest in 2003 and an increase in nuclear decommissioning investment income for 2003.

Results of Operations—Enterprises

<u>Enterprises</u>	<u>2003</u>	<u>2002</u>	<u>Favorable (unfavorable) variance</u>
Operating revenues	\$ 923	\$1,336	\$(413)
Purchased power and fuel expense	—	6	6
Operating and maintenance expense	1,027	1,297	270
Operating loss	(139)	(11)	(128)
Income (loss) before income taxes and cumulative effect of changes in accounting principles	(187)	140	(327)
Income (loss) before cumulative effect of changes in accounting principles	(117)	87	(204)
Net loss	(118)	(145)	27

Net Loss. The decrease in Enterprises' net loss before cumulative effect of changes in accounting principles in 2003 was primarily due to a decrease in operating revenues, partially offset by a decrease in operating and maintenance expense. Depreciation and amortization expense decreased \$15 million before income taxes from 2002 to 2003 primarily as a result of property, plant and equipment classified as held for sale in 2003. In 2003, Enterprises recorded charges for impairments of \$46 million before income taxes due to other-than-temporary declines in value and an impairment charge of \$8 million before income taxes for its equity method investment in a district cooling business joint venture, partially offset by 2002 charges for impairment of investments of \$41 million before income taxes and a net impairment of other assets of \$4 million before income taxes. In 2002, Enterprises recorded a pre-tax gain of \$198 million on the sale of its investment in AT&T Wireless. The adoption of SFAS No. 143 reduced 2003 net income by \$1 million, net of income taxes. The adoption of SFAS No. 142 reduced 2002 net income by \$243 million, net of income taxes. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further discussion of the adoptions of SFAS No. 143 and SFAS No. 142.

Operating Revenues. The changes in Enterprises' operating revenues for 2003 compared to 2002 consisted of the following:

<u>Enterprises</u>	<u>Increase (decrease)</u>
InfraSource	\$(359)
Exelon Services	(60)
Other	6
Decrease in operating revenues	<u>\$(413)</u>

InfraSource. Operating revenues decreased \$256 million at InfraSource due to the sale of the majority of the InfraSource businesses in the third quarter of 2003. For the remaining InfraSource businesses, operating revenues decreased \$103 million as a result of the closing of certain businesses and the reduction of new business as a result of wind-down efforts.

Exelon Services. Operating revenues decreased \$79 million at Exelon Services due to poor economic conditions in the construction market. This decrease was partially offset by improved performance contracting activities of \$19 million.

Operating and Maintenance Expense. The changes in Enterprises' operating and maintenance expense for 2003 compared to 2002 consisted of the following:

<u>Enterprises</u>	<u>Increase (decrease)</u>
InfraSource	\$(267)
Exelon Services	(6)
Other	3
Decrease in operating and maintenance expense	<u>\$(270)</u>

InfraSource. Operating and maintenance expense decreased \$222 million due to the sale of the majority of InfraSource businesses in the third quarter of 2003. In addition, operating and maintenance expense decreased \$80 million as a result of wind-down efforts of the remaining InfraSource businesses. These decreases were partially offset by increased expense of approximately \$30 million due to margin deterioration on various construction projects.

During 2003, Enterprises recorded a net charge to operating and maintenance expense of \$4 million (before income taxes and minority interest) associated with the sale of the majority of the InfraSource businesses.

Exelon Services. Operating and maintenance expense decreased \$56 million at Exelon Services due primarily to delays on mechanical construction projects resulting from poor economic conditions in the construction market. This decrease was partially offset by additional costs from increased performance contracting activities of \$13 million, a goodwill impairment charge of \$24 million and other asset impairments of \$15 million.

Effective Income Tax Rate. The effective income tax rate was 37.4% for 2003 compared to 37.9% for 2002. The decrease in the effective tax rate was primarily attributable to the AT&T wireless sale.

Liquidity and Capital Resources

Exelon's businesses are capital intensive and require considerable capital resources. These capital resources are primarily provided by internally generated cash flows from Energy Delivery's and Generation's operations. When necessary, Exelon obtains funds from external sources in the capital markets and through bank borrowings. Exelon's access to external financing at reasonable terms depends on Exelon and its subsidiaries' credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to the extent that Exelon no longer has access to the capital markets at reasonable terms, Exelon has access to revolving credit facilities with aggregate bank commitments of \$1.5 billion that it currently utilizes to support its commercial paper programs. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion. Exelon primarily uses its capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay common stock dividends, fund its pension obligations and

invest in new and existing ventures. Exelon's construction expenditures utilize a significant amount of cash on projects that have a long-term return on investment. Additionally, Energy Delivery operates in a rate-regulated environment in which recovery of current cash expenditures takes place over an extended period of time. As a result of these factors, Exelon has historically operated with a working capital deficit. However, Exelon expects operating cash flows to be sufficient to meet operating and capital expenditure requirements. Future acquisitions that Exelon may undertake, such as the proposed merger with PSEG, may require external debt financing or the issuance of Exelon common stock.

Cash Flows from Operating Activities

Energy Delivery's cash flows from operating activities primarily result from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices and are weighted toward the third quarter of each fiscal year. Energy Delivery's future cash flows will be affected by the impact of the economy, weather, customer choice and future regulatory proceedings on its revenues and its ability to achieve operating cost reductions. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Energy Delivery. Generation's future cash flows from operating activities will be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs.

Cash flows from operations have been, and are expected to continue to provide, a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements for the foreseeable future. Operating cash flows after 2006 could be negatively affected by changes in the rate regulatory environments of ComEd and PECO, although any effects are not expected to hinder the ability to fund their business requirements. See "Business Outlook and the Challenges in Managing the Business" for further information regarding the regulatory transition periods. Additionally, Exelon, through its ComEd subsidiary, has taken certain tax positions, which have been disclosed to the Internal Revenue Service (IRS), to defer the tax gain on the 1999 sale of its fossil generating assets. See Note 13 of Exelon's Notes to Consolidated Financial Statements for additional information regarding these tax positions.

The following table provides a summary of the major items impacting cash flows from operations:

	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Net income	\$1,864	\$ 905	\$ 959
Non-cash operating activities ^(a)	2,274	2,989	(715)
Changes in working capital and other noncurrent assets and liabilities ^(b) ..	530	(366)	896
Pension and post-retirement healthcare benefit payments	(270)	(144)	(126)
Net cash flow from operations	<u>\$4,398</u>	<u>\$3,384</u>	<u>\$1,014</u>

(a) Represents depreciation, amortization and accretion, deferred income taxes, cumulative effect of changes in accounting principle, impairment of investments and long-lived assets and other non-cash charges.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper and the current portion of long-term debt.

Cash flows provided by operations in 2004 and 2003 were \$4,398 million and \$3,384 million, respectively. Changes in Exelon's cash flows provided by operations were generally consistent with changes in its results of operations, as adjusted by changes in working capital in the normal course of business. The \$1,014 million increase in cash flows provided by operations from 2003 to 2004 was due primarily to an increase in operating income of \$1,156 million during 2004 over 2003 and changes in working capital and other asset and liability accounts, including income taxes. The timing of the working capital and other noncurrent asset and liability account changes resulted in an increase to cash flows provided by operations of approximately \$896 million in 2004 over 2003; approximately

\$564 million of which is the result of the timing of Federal income tax activity. The operating cash flows resulting from Federal income tax activity were primarily the result of the following:

- Exelon reduced its Federal income tax obligation by approximately \$315 million and \$140 million in 2004 and 2003, respectively, for tax-deductible pension plan contributions of approximately \$900 million to be contributed prior to September 15, 2005 and \$400 million contributed prior to September 15, 2004, respectively.
- Exelon realized Federal income tax credits from its investments in synthetic fuel producing facilities, which reduced its 2004 and 2003 Federal income taxes payable by approximately \$216 million and \$23 million, respectively.
- Exelon recorded approximately \$631 million and \$1,057 million of special depreciation allowances in 2004 and 2003, respectively, that resulted in the reduction of Federal income taxes payable of approximately \$220 million and \$370 million, respectively. Approximately \$150 million of the 2003 special depreciation allowance was recorded as a Federal income tax receivable at December 31, 2003 and filed and collected as a corporate application for quick refund in March 2004. This activity resulted in a \$300 million year over year increase in cash flows from 2003 to 2004.
- In November 2003, Exelon recorded a Federal income tax receivable of approximately \$120 million for capital losses generated in 2003 related to its investment in Sithe, which were carried back to prior periods. The transaction was presented as a use of cash in Exelon's December 31, 2003 statement of cash flows.

The combination of the income tax activities described above and other income tax activities reduced the amount of cash paid for income taxes from approximately \$730 million in 2003 to approximately \$200 million in 2004, a decrease of \$530 million.

Additionally, the following non-recurring operating cash flows occurred during 2004:

- In December 2004, TXU and Generation terminated a tolling agreement and entered into a new agreement. Upon termination of the original agreement, Generation received a cash payment of \$172 million. The resulting gain was deferred and will be recognized as income over the contractual term of the new agreement. See Note 2 of Exelon's Notes to Consolidated Financial Statements for further information regarding the transaction with TXU.
- Net cash received for collateral for 2004 was \$73 million, compared to \$68 million paid in 2003. The year over year increase in cash flows of \$141 million was primarily due to the reduction of cash collateral requirements for certain trading counterparties as a result of Generation negotiating the acceptance of letters of credit during 2004 to satisfy current and future collateral obligations.
- During 2004, Exelon paid \$86 million for prepayment premiums on the retirement of ComEd debt. See "Cash Flows from Financing Activities" for further information regarding debt retirements pursuant to the accelerated liability management plan.

Exelon management does not expect the changes in working capital associated with income taxes and other non-recurring events, as described above, that contributed to the increase in cash flows provided by operations in 2004 to recur.

Pension and other non-pension postretirement payments. Discretionary tax-deductible pension plan payments were \$439 million in 2004 compared to \$367 million in 2003. Exelon also contributed \$11 million during 2004 to the pension plans needed to satisfy minimum funding requirements of the Employee Retirement Income Security Act. Additionally, \$132 million and \$135 million were contributed to the postretirement welfare benefit plans for 2004 and 2003, respectively. See Note 15 of Exelon's

Notes to Consolidated Financial Statements for further information regarding pension and postretirement benefits.

Exelon expects to contribute approximately \$2 billion to its pension plans in 2005, which will be funded primarily through the issuance of debt in 2005. These contributions exclude benefit payments expected to be made directly from corporate assets. Of the \$2 billion expected to be contributed to the pension plans during 2005, \$13 million is estimated to be needed to satisfy Employee Retirement Income Security Act (ERISA) minimum funding requirements.

Cash Flows from Investing Activities

Cash flows used in investing activities for 2004 and 2003 were \$1,736 million and \$2,109 million, respectively. In addition to the recurring investing activities presented on the face of the Consolidated Statement of Cash Flows, significant investing activities by business segment during 2004 and 2003 are as follows:

Exelon

- Exelon received cash proceeds of \$76 million, net of \$2 million held in escrow at December 31, 2004, from the sale of its investments in affordable housing in 2004.
- Exelon contributed \$56 million to investments in synthetic fuel-producing facilities in 2004.

Generation

- Exelon Generation received cash proceeds of \$42 million from the January 2004 sale of three gas turbines that were classified as assets held for sale at December 31, 2003.
- On March 31, 2004, Exelon consolidated the assets and liabilities of Sithe under the provisions of FIN 46-R, which resulted in an increase in cash of \$19 million. See Note 1 and Note 3 of Exelon's Notes to Consolidated Financial Statements for further information regarding the FIN 46-R consolidation of Sithe.
- Sithe collected a \$20 million note receivable during 2004 related to the sale of certain businesses of Sithe during the fourth quarter of 2003 and the first quarter of 2004.
- On November 25, 2003, Generation, Reservoir, and Sithe completed a series of transactions resulting in Generation and Reservoir each indirectly owning a 50% interest in Sithe. Net cash proceeds from the series of transactions were \$44 million. In addition, a note was received from EXRES SHC, Inc. for \$92 million. See Note 3 and Note 25 of Exelon's Notes to Consolidated Financial Statements for further information regarding this transaction and Generation's sale of Sithe.
- In December 2003, Generation purchased the 50% interest in AmerGen held by British Energy for \$240 million, net of cash acquired of \$36 million. The acquisition was funded with cash provided by operations.

Enterprises

- Cash proceeds of \$227 million, net of transaction costs and contingency payments on prior year dispositions, were received during 2004 from the sales of Exelon Thermal Holdings, Inc., substantially all of the operating businesses of Exelon Services, Inc., and Enterprises' investments in PECO TelCove and other equity method and cost basis investments of Enterprises.

- Early settlement on an acquisition note receivable from the 2003 disposition of InfraSource resulted in cash proceeds of \$30 million during 2004.
- In September 2003, Enterprises sold the electric construction and services, underground and telecom businesses of InfraSource for cash of \$175 million, net of transaction costs and cash transferred to the buyer upon sale.

Investing activities in 2004 and 2003 exclude the non-cash issuance of \$22 million and \$238 million of notes payable, respectively, for Exelon's investments in synthetic fuel-producing facilities. Exelon expects these investments to provide more than \$200 million of net cash benefits from 2005 through 2008, with peak net cash of approximately \$100 million in 2008.

Capital expenditures by business segment for 2004 and projected amounts for 2005 are as follows:

	<u>2004</u>	<u>2005</u>
Energy Delivery	\$ 946	\$1,023
Generation	960	1,073
Corporate and other	15	56
Total capital expenditures	<u>\$1,921</u>	<u>\$2,152</u>

Excluding acquisitions, capital requirements during 2005 are expected to be met through internally generated cash or external borrowings. Exelon's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Energy Delivery. Energy Delivery's projected capital expenditures for 2005 reflect continuing efforts to improve the reliability of its transmission and distribution systems and capital additions to support new business and customer growth. Exelon anticipates that Energy Delivery's capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

Generation. Exelon projects that Generation's capital expenditures for 2005 will be higher than they were in 2004. The majority of these expenditures will be for additions and upgrades to existing facilities, nuclear fuel and increases in capacity at existing plants. Generation is planning on eleven nuclear refueling outages in 2005, compared to ten during 2004; however, the projected total non-fuel capital expenditures for the nuclear plants are expected to decrease in 2005 from 2004 by \$40 million. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

Cash Flows from Financing Activities

Cash flows used in financing activities for 2004 were \$2,627 million compared to \$1,240 million for the same period in 2003. The increase in cash used in financing activities was primarily attributable to an increase in the net retirement of long-term debt and preferred securities during 2004 of \$2,221 million. Exelon retired \$1.2 billion of long-term debt, including \$1.0 billion prior to its maturity and \$206 million at maturity, during 2004 in accordance with an accelerated liability management plan and retired \$728 million of long-term debt due to financing affiliates. During 2003, Exelon issued debt (net of retirements during the period) and preferred stock of approximately \$96 million. See Note 12 of Exelon's Notes to Consolidated Financial Statements for further information regarding debt issuances and retirements during 2004. During 2004, Exelon issued \$164 million of commercial paper, net of payments, and received cash proceeds of \$33 million from the settlement of interest-rate swaps.

During 2003, Exelon repaid \$355 million of commercial paper and paid \$43 million to settle interest-rate swaps. Additionally, Exelon repurchased common shares totaling \$82 million during 2004 and received proceeds from employee stock plans of \$240 million and \$181 million during 2004 and 2003, respectively.

In 2004, Generation paid \$27 million of a note payable to Sithe, compared to \$446 million paid in 2003. At December 31, 2004, Generation had repaid \$473 million of the note payable, resulting in a remaining balance of \$63 million, which was paid upon the completion of a series of transactions that resulted in Generation's exit from its investment in Sithe on January 31, 2005. See Note 25 of Exelon's Notes to Consolidated Financial Statements for further information regarding the sale of Sithe.

The 2004 cash dividend payments on common stock increased \$211 million over 2003, reflecting a 10% increase in the first quarter of 2004 and an 11% increase in the third quarter of 2004. See further discussion of Exelon's dividend policy within the "Dividends" section on page 22 of this Financial Information supplement.

From time to time and as market conditions warrant, Exelon may engage in long-term debt retirements via tender offers, open market repurchases or other viable options to strengthen its balance sheet. In the third quarter of 2004, Exelon initiated an accelerated liability management plan. Through December 31, 2004, ComEd had retired approximately \$1.2 billion of debt under the plan, including \$1.0 billion prior to its maturity and \$206 million at maturity.

Credit Issues

Exelon Credit Facility

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by Exelon, ComEd, PECO and Generation. At December 31, 2004, Exelon, along with ComEd, PECO and Generation, participated with a group of banks in a \$1 billion unsecured revolving facility maturing on July 16, 2009 and a \$500 million unsecured revolving credit facility maturing on October 31, 2006. Both revolving credit agreements are used principally to support the commercial paper programs at Exelon, ComEd, PECO and Generation and to issue letters of credit.

At December 31, 2004, Exelon, ComEd, PECO and Generation had the following sublimits and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

<u>Borrower</u>	<u>Bank Sublimit</u> ^(a)	<u>Available Capacity</u> ^(b)	<u>Outstanding Commercial Paper</u>
Exelon	\$700	\$685	\$490
ComEd	100	74	—
PECO	100	100	—
Generation	600	444	—

(a) Sublimits under the credit agreements can change upon written notification to the bank group.

(b) Available capacity represents the bank sublimit net of outstanding letters of credit. The amount of commercial paper outstanding does not reduce the available capacity under the credit facilities.

Interest rates on advances under the credit facilities are based on either prime or the London Interbank Offering Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the total outstanding amounts under the agreement at the time of borrowing. The maximum LIBOR adder is 170 basis points.

The average interest rates on commercial paper in 2004 for Exelon, ComEd, PECO and Generation were approximately 1.51%, 2.11%, 1.08% and 1.14%, respectively.

The credit agreements require Exelon, ComEd, PECO and Generation to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, revenues from Sithe and interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the twelve-month period ended December 31, 2004:

	<u>Exelon</u>	<u>ComEd</u>	<u>PECO</u>	<u>Generation</u>
Credit agreement threshold	2.65 to 1	2.25 to 1	2.25 to 1	3.25 to 1

At December 31, 2004, Exelon, ComEd, PECO and Generation were in compliance with the foregoing thresholds.

At December 31, 2004, Exelon's capital structure consisted of 56% of long-term debt, including long-term debt to financing trusts, 41% common equity, 2% notes payable and less than 1% preferred securities of subsidiaries. Total debt included \$5.3 billion owed to unconsolidated affiliates of ComEd and PECO that qualify as special purpose entities under FIN 46-R. These special purpose entities were created for the sole purpose of issuing debt obligations to securitize intangible transition property and CTCs of Energy Delivery or mandatorily redeemable preferred securities. See Note 1 of Exelon's Notes to Consolidated Financial Statements for further information regarding FIN 46-R.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by the corporate treasurer. ComEd and its subsidiary, Commonwealth Edison Company of Indiana, Inc. (ComEd of Indiana), PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon and UII, LLC, a wholly owned subsidiary of Exelon, may participate as lenders. Funding of, and borrowings from, the money pool are predicated on whether the contributions and borrowings result in economic benefits. Interest on borrowings is based on short-term market rates of interest or, if from an external source, specific borrowing rates. Maximum amounts contributed to and borrowed from the money pool by participant during 2004 are described in the following table in addition to the net contribution or borrowing as of December 31, 2004:

	<u>Maximum Contributed</u>	<u>Maximum Borrowed</u>	<u>December 31, 2004 Contributed (Borrowed)</u>
ComEd	\$487	\$ 43	\$ 308
ComEd of Indiana ^(a)	21	—	—
PECO	162	70	34
Generation	53	546	(283)
BSC	—	197	(59)
UII, LLC	160	—	—

(a) The activity at ComEd of Indiana was eliminated in the consolidation of ComEd.

Security Ratings

Exelon's, ComEd's, PECO's and Generation's access to the capital markets, including the commercial paper market, and its financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. On December 20, 2004, Standard and Poor's Rating Services placed the ratings of Exelon and its subsidiaries on credit watch with negative implications in

response to the announced Merger between Exelon and PSEG. None of Exelon's borrowings is subject to default or prepayment as a result of a downgrading of securities although such a downgrading could increase fees and interest charges under Exelon's credit facilities.

The following table shows the Registrants' securities ratings at December 31, 2004:

	<u>Securities</u>	<u>Moody's Investors Service</u>	<u>Standard & Poors Corporation</u>	<u>Fitch Investors Service, Inc.</u>
Exelon	Senior unsecured debt	Baa2	BBB+	BBB+
	Commercial paper	P2	A2	F2
ComEd	Senior secured debt	A3	A-	A-
	Commercial paper	P2	A2	F2
	Transition bonds ^(a)	Aaa	AAA	AAA
PECO	Senior secured debt	A2	A-	A
	Commercial paper	P1	A2	F1
	Transition bonds ^(b)	Aaa	AAA	AAA
Generation	Senior unsecured debt	Baa1	A-	BBB+
	Commercial paper	P2	A2	F2

(a) Issued by ComEd Transitional Funding Trust, an unconsolidated affiliate of ComEd.

(b) Issued by PETT, an unconsolidated affiliate of PECO.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

As part of the normal course of business, Exelon routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit its counterparties and Exelon to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if Exelon or Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of Exelon or Generation's situation at the time of the demand. If Exelon can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

See the PUHCA Restrictions section below for discussion of investment grade ratings under PUHCA.

Shelf Registration

As of December 31, 2004, Exelon, ComEd and PECO had current shelf registration statements for the sale of \$2.0 billion, \$555 million and \$550 million, respectively, of securities that were effective with the SEC. The ability of Exelon, ComEd or PECO to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, the current financial condition of the company, its securities ratings and market conditions.

PUHCA Restrictions

On April 1, 2004, Exelon obtained an order from the SEC under the Public Utilities Holding Company Act of 1935 (PUHCA) authorizing, through April 15, 2007, financing transactions, including the issuance of common stock, preferred securities, equity-linked securities, long-term debt and short-term debt in an aggregate amount not to exceed \$8.0 billion above the amount outstanding for Exelon Corporate and Generation at December 31, 2003. No securities have been issued under the above-described limit. Exelon is also authorized to issue guarantees, letters of credit, or otherwise provide credit support with respect to the obligations of its subsidiaries and non-affiliated third parties in the normal course of business of up to \$6.0 billion outstanding at any one time. At December 31, 2004, Exelon had provided \$2.0 billion of guarantees and letters of credit under the SEC order. See "Contractual Obligations and Off-Balance Sheet Arrangements" in this section for further discussion of guarantees. The SEC order requires Exelon to maintain a ratio of common equity to total capitalization (including securitization debt) of not less than 30%. At December 31, 2004, Exelon's common equity ratio was 42%. Exelon expects that it will maintain a common equity ratio of at least 30%.

Exelon is also limited by the April 1, 2004 order to an aggregate investment of \$4.0 billion in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs). At December 31, 2004, Exelon had invested \$2.2 billion in EWGs, leaving \$1.8 billion of investment authority under the order. In that order, the SEC reserved jurisdiction over an additional \$3.0 billion in investments in EWGs.

The loss of investment grade ratings for any outstanding security of ComEd, PECO or Generation would suspend the financing authority of the issuer to issue certain other securities and guarantees. The loss of investment grade ratings for any outstanding security of Exelon would suspend financing authority for ComEd, PECO, Generation and Exelon to issue certain other securities and guarantees. Exceptions include long-term debt issuances by ComEd and PECO (authorization for such security issuances are granted by the ICC and the PUC, respectively), common stock and the issuance of securities for the purpose of funding money pool operations. For purposes of investment grade ratings, a security will be deemed to be rated investment grade if it is rated investment grade by at least one nationally recognized statistical rating organization.

In cases where the financing authority of Exelon or a subsidiary is suspended in the circumstances as described above, Exelon would nevertheless be able to seek specific further authority from the SEC for it or its subsidiaries to continue to issue securities upon receipt of further SEC authorization.

Under applicable law, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at ComEd, PECO or Generation may limit the dividends that these companies can distribute to Exelon. At December 31, 2004, Exelon had retained earnings of \$3.4 billion, including ComEd's retained earnings of \$1,102 million (all of which had been appropriated for future dividend payments), PECO's retained earnings of \$607 million and Generation's undistributed earnings of \$761 million.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes Exelon's future estimated cash payments under existing contractual obligations, including payments due by period.

	Total	Payment due within			Due 2010 and beyond
		2005	2006-2007	2008-2009	
Long-term debt	\$ 7,774	\$ 424	\$ 712	\$1,023	\$ 5,615
Long-term debt to financing trusts	5,342	486	1,840	1,665	1,351
Interest payments on long-term debt ^{(a)(b)}	4,031	429	790	644	2,168
Interest payments on long-term debt to financing trusts ^(a)	1,938	329	515	285	809
Commercial paper	490	490	—	—	—
Capital leases	50	3	5	4	38
Operating leases	909	73	134	114	588
Power purchase obligations	9,497	2,024	1,973	1,288	4,212
Fuel purchase agreements	3,639	639	985	616	1,399
Other purchase obligations ^(c)	463	241	134	57	31
Chicago agreement ^(d)	48	6	12	12	18
Regulatory commitments	20	10	10	—	—
Spent nuclear fuel obligation	878	—	—	—	878
Obligation to minority shareholders	49	3	5	5	36
Pension ERISA minimum funding requirement	13	13	—	—	—
Decommissioning ^(e)	3,981	—	—	—	3,981
Total contractual obligations	\$39,122	\$5,170	\$7,115	\$5,713	\$21,124

- (a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2004 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2004. In 2004, Exelon's Board of Directors approved contributions of approximately \$2 billion in 2005 to Exelon's defined benefit pension plans. The contributions will be funded in part by additional debt anticipated to be issued in 2005. Estimated future payments associated with the anticipated debt issuance have not been included in the table above.
- (b) Includes Sithe-related interest payments of \$71 million, \$132 million, \$115 million and \$849 million for payments due in 2005, 2006-2007, 2008-2009 and 2010 and beyond, respectively. See Note 25 of Exelon's Notes to Consolidated Financial Statements for information regarding the sale of Generation's investment in Sithe.
- (c) Commitments for services and materials, minimum spend requirements related to the sale of InfraSource (see Note 2 of Exelon's Consolidated Financial Statements) and amounts committed for information technology services.
- (d) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago \$60 million over ten years to be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility.
- (e) Represents the present value of Generation's obligation to decommission nuclear plants.

For additional information about:

- regulatory commitments, see Note 5 of Exelon's Notes to Consolidated Financial Statements.
- commercial paper, see Note 11 of Exelon's Notes to Consolidated Financial Statements.
- long-term debt, see Note 12 of Exelon's Notes to Consolidated Financial Statements.
- capital lease obligations, see Note 12 of Exelon's Notes to Consolidated Financial Statements.
- the spent nuclear fuel and decommissioning obligations, see Note 14 of Exelon's Notes to Consolidated Financial Statements.
- the contribution required to Exelon's pension plans to satisfy ERISA minimum funding requirements, see Note 15 of Exelon's Notes to Consolidated Financial Statements.

- operating leases, energy commitments, fuel purchase agreements and other purchase obligations, see Note 20 of Exelon's Notes to Consolidated Financial Statements.
- the obligation to minority shareholders; see Note 20 of Exelon's Notes to Consolidated Financial Statements.

Mystic Development LLC (Mystic) a former affiliate of Exelon New England has a long-term agreement through January 2020 with Distrigas of Massachusetts Corporation (Distrigas) for gas supply, primarily for the Boston Generating units. Under the agreement, gas purchase prices from Distrigas are indexed to the New England gas markets. Exelon New England has guaranteed Mystic's financial obligations to Distrigas under the long-term supply agreement. Exelon New England's guarantee to Distrigas remained in effect following the transfer of ownership interest in Boston Generating in May 2004. Under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" (FIN 45), approximately \$16 million was included as a liability within the Consolidated Balance Sheet of Exelon as of December 31, 2004 related to this guarantee. The terms of the guarantee do not limit the potential future payments that Exelon New England could be required to make under the guarantee.

Exelon paid down \$27 million of the Exelon New England note during 2004 to fund Sithe's acquisition of the 40% of Sithe/Independence Power Partners, L.P. that it did not own. Sithe is now the owner of 100% of the Independence generating plant.

Generation has an obligation to decommission its nuclear power plants. NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in certain minimum amounts at the end of the life of the facility to decommission the facility. Based on estimates of decommissioning costs for each of the nuclear facilities in which Generation has an ownership interest, the ICC permits ComEd, and the PUC permits PECO, to collect from their customers and deposit in nuclear decommissioning trust funds maintained by Generation amounts which, together with earnings thereon, will be used to decommission such nuclear facilities. Generation also maintains nuclear decommissioning trust funds for each of the AmerGen units. Upon adoption of SFAS No. 143, Generation was required to re-measure its decommissioning liabilities at fair value and recorded an asset retirement obligation of \$2.4 billion on January 1, 2003. Increases in the asset retirement obligation to decommission nuclear generating facilities resulting from the passage of time are recorded as operating and maintenance expense. Increases in the asset retirement obligation resulting from a remeasurement are recorded with a corresponding ARC, which is a component of property, plant and equipment. At December 31, 2004, the asset retirement obligation recorded within Generation's Consolidated Balance Sheet was approximately \$4.0 billion. Decommissioning expenditures are expected to occur primarily after the plants are retired. Based on current licenses and anticipated renewals, decommissioning expenditures for plants in operation are currently estimated to begin in 2029. To fund future decommissioning costs, Generation held \$5.3 billion of investments in trust funds, including net unrealized gains and losses, at December 31, 2004. See Note 14 of Exelon's Notes to Consolidated Financial Statements for further discussion of Generation's decommissioning obligation.

See Note 20 of Exelon's Notes to Consolidated Financial Statements for discussion of Exelon's commercial commitments as of December 31, 2004.

IRS Refund Claims

ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. ComEd and PECO previously made refundable prepayments to the tax consultant of \$11 million and \$5 million, respectively. The fees for these agreements are contingent upon a successful outcome of the claims and are based upon a percentage of the refunds to be recovered from the IRS, if any. The ultimate net cash outflow from ComEd and PECO related to all the agreements will either be positive or neutral depending upon the outcome of the refund claims with the

IRS. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. A portion of ComEd's tax benefits, including any associated interest for periods prior to the PECO / Unicom Merger, would be recorded as a reduction of goodwill pursuant to a reallocation of the PECO / Unicom Merger purchase price. See below for discussion of the final approval of ComEd's income tax refund claim. PECO cannot predict the timing of the final resolution of its refund claims.

During 2004, the IRS granted preliminary approval for one of ComEd's refund claims. As such, ComEd believes that it is probable that a fee will ultimately be paid to the tax consultant. Therefore, ComEd recorded an expense of \$5 million (pre-tax), which resulted in a decrease to the prepayment from \$11 million to \$6 million. The charge represents an estimate of the fee to the tax consultant which may be adjusted upward or downward depending on the IRS' final calculation of the tax and interest benefit. As of December 31, 2004, ComEd had not reflected the tax benefit associated with the refund claim pending final approval of the IRS; however, as described above, the net income statement impact for ComEd is anticipated to be neutral or positive.

In the first quarter of 2005, ComEd received final approval for the income tax refund described above; however the calculation of the claim, including interest has not been finalized. As a portion of the refund will be recorded against goodwill under the provisions of EITF Issue No. 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination," the net result is not anticipated to have a material impact on Exelon's results of operations.

Variable Interest Entities

Sithe. As of December 31, 2004, Generation was a 50% owner of Sithe. In accordance with FIN 46-R, Generation consolidated Sithe within its financial statements as of March 31, 2004. The determination that Sithe qualified as a variable interest entity and that Generation was the primary beneficiary under FIN 46-R required analysis of the economic benefits accruing to all parties pursuant to their ownership interests supplemented by management's judgment. See Note 3 and Note 25 of Exelon's Notes to Consolidated Financial Statements for a discussion of Generation's ownership in Sithe and the ultimate sale of Generation's entire interest in Sithe, which was completed on January 31, 2005.

Financing Trusts of ComEd and PECO. During June 2003, PECO issued \$103 million of subordinated debentures to PECO Trust IV in connection with the issuance by PECO Trust IV of \$100 million of preferred securities. Effective July 1, 2003, PECO Trust IV was deconsolidated from the financial statements of PECO in conjunction with FIN 46. The \$103 million of subordinated debentures issued by PECO to PECO Trust IV was recorded as long-term debt to financing trusts within the Consolidated Balance Sheets.

Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Funding, LLC, ComEd Transitional Funding Trust, PECO Trust III and PETT were deconsolidated from the financial statements of Exelon in conjunction with the adoption of FIN 46-R. Amounts of \$5.3 billion owed by ComEd and PECO to these financing trusts were recorded as long-term debt to ComEd Transitional Funding Trust and PETT and long-term debt to financing trusts within the Consolidated Balance Sheets as of December 31, 2004. See Other Subsidiaries of ComEd and PECO with Publicly Held Securities in Part I, Item 1 of Exelon's 2004 Form 10-K for further discussion of the nature, purpose and history of Exelon's involvement with these financing trusts.

PECO Accounts Receivable Agreement

PECO 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 \$225 million of designated accounts receivable until November 2005. PECO entered into this agreement to diversify its funding sources at

favorable floating interest rates. At December 31, 2004, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$179 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," and a \$46 million interest in special agreement accounts receivable, which PECO accounted for as a long-term note payable and reflected on the consolidated balance sheet as long-term debt due within one year. At December 31, 2003, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$176 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 140 and a \$49 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. PECO must continue to service these receivables and must maintain the level of the accounts receivable at \$225 million. If PECO fails to maintain that level, the cash that would otherwise be received by PECO under this program must be held in escrow until the level is met. At December 31, 2004 and 2003, PECO met this requirement and was not required to make any cash deposit.

Nuclear Insurance Coverage

Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to Generation's nuclear plants, subject to certain exceptions. Additionally, Generation carries business interruption insurance in the event of a major accidental outage at a nuclear station. Finally, Generation participates in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. See Note 20 of Exelon's Notes to Consolidated Financial Statements for further discussion of nuclear insurance. For its types of insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon and Generation's financial condition and their results of operations and cash flows.

Business Outlook and the Challenges in Managing the Business

Substantially all of Exelon's businesses are in the electric generation, transmission and distribution industry in the United States. That industry is in the midst of a fundamental and, at this point, uncertain transition from a fully regulated industry offering bundled service to an industry with unbundled services, some of which are regulated and others of which are priced in competitive markets. Exelon's Energy Delivery business remains highly regulated while Exelon's Generation and Enterprises businesses operate in competitive environments. All of Exelon's businesses are capital intensive.

The challenges affecting Exelon's businesses are discussed below. There are several factors, such as weather, economic activity and regulatory actions that affect its businesses in different ways. Also, there are several factors that affect its business as a whole, such as environmental compliance and the ability to access capital on a cost-effective basis. Further discussion of its liquidity and capital resources and related challenges is included in the Liquidity and Capital Resources section.

Energy Delivery

The Energy Delivery business is comprised of two utility transmission and distribution companies, ComEd and PECO, which provide electricity and, in the case of PECO, natural gas to customers in Illinois and Pennsylvania, respectively. Energy Delivery focuses on providing safe and reliable services to customers. Energy Delivery continues to make improvements to its delivery systems to minimize the frequency and duration of service interruptions, while working more efficiently to lower costs. Exelon believes that Energy Delivery will continue to provide a significant and steady source of earnings and cash flows over the next several years.

Both Illinois and Pennsylvania have adopted restructuring legislation designed to foster competition in the retail sale of electricity. As a result of these restructuring initiatives, both ComEd and PECO are subject to rate freezes or caps through mandated restructuring transition periods. During these periods, the results of operations of ComEd and PECO will depend on their ability to deliver energy in a cost-efficient manner and to offset infrastructure investments and inflation with cost savings. ComEd and PECO each have long-term, full-requirements supply contracts with Generation, helping to mitigate the risk of changing energy supply costs during their respective transition periods. Energy Delivery is also managing operating and maintenance costs, while maintaining a strong focus on both reliability and safety in operating its business.

Exelon cannot currently predict the frameworks that will be used by the Illinois and Pennsylvania state regulators to establish rates after the transition periods. Exelon also cannot predict the outcome of any new laws that may impact its business. Nevertheless, Exelon expects that ComEd and PECO will continue to be obligated to deliver electric power and energy to customers in their respective service territories and will also retain significant POLR obligations, whereby each utility is required to provide electric power and energy service to customers in its service area. ComEd and PECO therefore must continue to ensure that adequate supplies of electricity and gas are available at reasonable costs.

More detailed explanations for each of these and other challenges in managing the Energy Delivery business are as follows:

Exelon must comply with numerous regulatory requirements in managing the Energy Delivery business, which affect their costs and responsiveness to changing events and opportunities.

The Energy Delivery business is subject to regulation at the state and Federal levels. State commissions regulate the rates, terms and conditions of service; various business practices and transactions; financings; and transactions between the utilities and affiliates. The FERC regulates the utilities' transmission rates, certain other aspects of their businesses and, for PECO, gas pipelines. The regulations adopted by these state and Federal agencies affect the manner in which Energy Delivery does business, its ability to undertake specified actions, the costs of its operations, and the level of rates Energy Delivery may charge to recover such costs.

Energy Delivery must manage its costs due to the rate and equity return limitations imposed on its revenues.

Rate freezes or caps in effect at ComEd and PECO currently limit their ability to recover increased expenses and the costs of investments in new transmission and distribution facilities. As a result, Energy Delivery's future results of operations will depend on the ability of ComEd and PECO to deliver electricity and, in the case of PECO, natural gas in a cost-efficient manner.

Rate limitations. ComEd is subject to a legislatively mandated rate freeze on bundled retail rates that will remain in effect until January 1, 2007. Pursuant to a PECO / Unicom Merger-related settlement agreement with the PUC, PECO is subject to agreed-upon electric service rate reductions of \$200 million, in aggregate, for the period January 1, 2002 through December 31, 2005, including \$40 million in each of 2004 and 2005, and caps (subject to limited exceptions for significant increases in Federal or state income taxes or other significant changes in law or regulation that do not allow PECO to earn a fair rate of return) on its transmission and distribution rates through December 31, 2006, and on its generation rates through December 31, 2010.

Equity return limitation. ComEd is subject to a legislatively mandated cap on its return on common equity through the end of 2006. The cap is based on a two-year average of the U.S. Treasury long-term rates (20 years and above) plus 8.5% and is compared to a two-year average return on

ComEd's common equity. The legislation requires customer refunds equal to one-half of any earnings above the cap. ComEd is allowed to include regulatory asset amortization in the calculation of earnings. Under Illinois statute, any impairment of goodwill has no impact on the determination of the cap on ComEd's allowed equity return during the transition period. ComEd has not triggered the earnings sharing provision in 2004 or previous years and does not expect to trigger that provision in 2005 or 2006.

Energy Delivery's long-term purchase power agreements provide a hedge to its customers' demand.

To effectively manage its obligation to provide power to meet its customers' demand, Energy Delivery has established full-requirements, power supply agreements with Generation which reduce exposure to the volatility of customer demand and market prices through 2006 for ComEd and through 2010 for PECO. Market prices relative to Energy Delivery's regulated rates still influence whether retail customers purchase energy from Energy Delivery or from an alternative electric supplier.

Effective management of capital projects is important to Energy Delivery's business.

Energy Delivery's business is capital intensive and requires significant investments in energy transmission and distribution facilities and in other internal infrastructure projects.

Energy Delivery expects to continue to make significant capital expenditures to improve the reliability of its transmission and distribution systems and for capital additions to support new business and customer growth. It is anticipated that Energy Delivery's capital expenditures will exceed depreciation on its plant assets. Energy Delivery's base rate freeze and caps will generally preclude rate recovery on any of these incremental investments prior to January 1, 2007.

Energy Delivery's business may be significantly affected by the end of the Illinois and Pennsylvania regulatory transition periods.

Illinois. Illinois electric utilities are allowed to collect competitive transition charges (CTCs) from customers who choose an alternative electric supplier or choose ComEd's power purchase option (PPO). CTCs were intended to assist electric utilities, such as ComEd, in recovering stranded costs that might not otherwise be recoverable in a fully competitive market. The CTC charge represents the difference between the market value of delivered energy (the sum of generation service at market-based prices and the regulated price of energy delivery) and recoveries under historical bundled rates, reduced by a mitigation factor. The CTCs are updated annually. Over time, to facilitate the transition to a competitive market, the mitigation factor increases, thereby reducing the CTC.

In 2004 and 2003, ComEd collected \$169 million and \$304 million, respectively, of CTC revenue. As a result of increasing mitigation factors, changes in energy prices and the ability of certain customers to establish fixed, multi-year CTC rates beginning in 2003, it is anticipated that this revenue source will decline to approximately \$90 million to \$110 million in each of the years 2005 and 2006. Under the current restructuring statute, no CTCs will be collected after 2006.

Through 2006, ComEd will continue to have an obligation to offer bundled service to all customers (except certain large customers with demand of three MWs or more) at frozen price levels, under which a majority of ComEd's residential and small commercial customers are expected to continue to receive service. ComEd's current bundled service is generally provided under an all-inclusive rate that does not separately break out charges for energy generation service and energy delivery service, but charges a single set of prices. After the transition ends in 2006, ComEd's bundled rates may be reset through a regulatory approval process, which may include traditional or innovative pricing, including performance-based incentives to ComEd.

In order to address post-transition uncertainty, ComEd is continually working with the ICC, consumer advocates and business community leadership to facilitate the development of a competitive electricity market while providing system reliability and safety. ComEd is promoting constructs that will move it towards transparent and liquid markets to allow for power procurement that will be deemed prudent, provide consumers assurance of equitable pricing and ensure cost recoverability. At the same time, ComEd is attempting to establish a regulatory framework for the post-2006 timeframe. Currently, it is difficult to predict the framework for, or the outcome of, a potential regulatory proceeding to establish rates after 2006.

In 2004, the ICC initiated and conducted a workshop process to consider issues related to retail electric service in the post-transition period (i.e., post-2006). Issues addressed included utility wholesale supply procurement methodology, rates, competition and utility service obligations. All interested parties were invited to participate. The end result was a report to the Illinois General Assembly which was generally supportive of continuing under the existing regulatory framework and of utilities procuring supply through a full-requirements, vertical tranche, descending clock auction process with full recovery of the supply costs from retail customers. In 2005, utilities including ComEd, are expected to begin to seek regulatory approval of structures that implement the methodologies supported by the report or such other proposals as they may choose to make. ComEd intends to make various filings during 2005 to begin the process to establish rates for the post-transition period. ComEd currently expects that these filings will include a proposal consistent with the auction process described above. All such methodologies and proposals will be subject to regulatory approval. ComEd cannot predict which particular proposal or proposals will be approved.

Pennsylvania. In Pennsylvania, the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act) provides for the imposition and collection of non-bypassable CTCs on customers' bills as a mechanism for utilities to recover their allowed stranded costs. CTCs are assessed to and collected from virtually all retail customers who access PECO's transmission and distribution systems. These CTCs are assessed regardless of whether the customer purchases electricity from PECO or an alternative electric supplier. The Competition Act provides, however, that PECO's right to collect CTCs is contingent on the continued operation, at reasonable availability levels, of the assets for which the stranded costs were awarded, except where continued operation is no longer cost efficient because of the transition to a competitive market.

PECO has been authorized by the PUC to recover stranded costs of \$5.3 billion over a twelve-year period ending December 31, 2010, with a return on the unamortized balance of 10.75%. At December 31, 2004, approximately \$3.9 billion had yet to be recovered. Recovery of transition charges for stranded costs and PECO's allowed return on its recovery of stranded costs are included in revenues. Amortization of PECO's stranded cost recovery, which is a regulatory asset, is included in depreciation and amortization expense. PECO's results will be adversely affected over the remaining transition period ending December 31, 2010 by the steadily increasing amortization of stranded costs. The following table (amounts in millions) indicates the estimated revenues and amortization expense associated with CTC collection and stranded cost recovery through 2010.

<u>Year</u>	<u>Estimated CTC Revenue</u>	<u>Estimated Stranded Cost Amortization</u>
2005	\$808	\$404
2006	903	550
2007	910	619
2008	917	697
2009	924	783
2010	932	880

By the end of 2010, PECO will have fully recovered all of the stranded costs authorized by the PUC. As a result, PECO expects that both its revenues and expenses will decrease in 2011.

PECO's transmission and distribution rates are capped through 2006, while PECO's generation rates are capped through 2010. The end of these transition periods involves uncertainties, including the nature of PECO's POLR obligations and the source and pricing of generation services to be provided by PECO. PECO will continue to work with Federal and state regulators, state and local governments, customer representatives and other interested parties to develop appropriate processes for establishing future rates in restructured electricity markets. PECO will strive to ensure that future rate structures recognize the substantial improvements PECO has made, and will continue to make, in its transmission and distribution systems. PECO will also work to ensure that its rates are adequate to cover its costs of obtaining electric power and energy from its suppliers, which could include Generation, for the costs associated with procuring full requirements power given PECO's POLR obligations. As in the past, by working together with all interested parties, PECO believes it can successfully meet these objectives and obtain fair recovery of its costs for providing service to its customers; however, if PECO is unsuccessful, its results of operations and cash flows could be negatively affected after the transition periods.

Energy Delivery's ability to successfully manage the end of the transition period may affect its capital structure.

Exelon and ComEd had approximately \$4.7 billion of goodwill recorded at December 31, 2004. This goodwill was recognized and recorded in connection with the PECO / Unicom Merger. Under GAAP, the goodwill will remain at its recorded amount unless it is determined to be impaired, which is based upon an annual analysis prescribed by SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142) that compares the implied fair value of the goodwill to its carrying value. If an impairment occurs, the amount of the impaired goodwill will be written off and expensed, reducing equity. Under Illinois law, any impairment of goodwill has no impact on the determination of ComEd's rate cap through the transition period.

Goodwill was not impaired at Exelon or ComEd during 2004. Exelon's goodwill impairment test considers the cash flows of the entire Energy Delivery business segment, including both ComEd and PECO, and not just of ComEd; accordingly, a goodwill impairment charge at ComEd may not affect Exelon's results of operations.

However, based on certain anticipated reductions to cash flows (primarily reductions in CTCs) subsequent to ComEd's regulatory transition period, there is a reasonable possibility that goodwill will be impaired at ComEd, and possibly at Exelon, in 2005 or later periods. The actual timing and amounts of any goodwill impairments in future years will depend on many sensitive, interrelated and uncertain variables, including changing interest rates, utility sector market performance, ComEd's capital structure, market prices for power, post-2006 rate regulatory structures, operating and capital expenditure requirements and other factors, some not yet known.

See Critical Accounting Policies and Estimates for further discussion on goodwill impairments.

Energy Delivery is and will continue to be involved in regulatory proceedings as a part of the process of establishing the terms and rates for its services.

These regulatory proceedings typically involve multiple parties, including governmental bodies, consumer advocacy groups and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases or even reducing rates. The proceedings also involve various contested issues of law and fact and have a bearing upon the recovery of Energy Delivery's costs through regulated rates. During the course of the proceedings, Energy Delivery looks

for opportunities to resolve contested issues in a manner that grants some certainty to all parties to the proceedings as to rates and energy costs.

Energy Delivery's business is affected by the restructuring of the energy industry.

The electric utility industry in the United States is in transition. As a result of both legislative initiatives as well as competitive pressures, the industry has been moving from a fully regulated industry, consisting primarily of vertically integrated companies that combine generation, transmission and distribution, to a partially restructured industry, consisting of competitive wholesale generation markets and continued regulation of transmission and distribution. Due to a number of factors, these developments have been somewhat uneven across the states. Both Illinois and Pennsylvania have adopted restructuring legislation designed to foster competition in the retail sale of electricity, but a large number of other states have not changed their regulatory structures.

Regional Transmission Organizations and Standard Market Platform. The FERC required jurisdictional utilities to provide open access to their transmission systems as early as the late 1980's. Subsequently, the FERC encouraged the voluntary development of RTOs and the elimination of trade barriers between regions. RTOs provide transmission service. Transmission owners remain responsible for maintaining and operating their transmission facilities, under the direction of RTOs, and recover their revenue requirements through the RTOs. ComEd and PECO are members of PJM, a FERC-approved RTO operating in the Mid-Atlantic and Midwest regions. RTOs direct the dispatch of generation units as a means of centrally managing congestion on transmission systems without curtailing service. RTOs also manage transparent and competitive short-term energy markets.

The FERC's efforts to promote RTOs throughout the states has generated substantial opposition by some state regulators and other governmental bodies. In addition, efforts to develop an RTO have been abandoned in certain regions. Notwithstanding these difficulties, MISO has been certified as a RTO by the FERC. MISO is attempting to develop central generation dispatch and transmission operations across the Midwestern United States, contiguous to PJM's footprint. The FERC has ordered the elimination of rate barriers and protocol differences between MISO and PJM. Energy Delivery supports the development of RTOs and implementation of standard market protocols for these regions, and others, but cannot predict their success or whether they will lead to the development of the envisioned large, successful wholesale markets. The development of large competitive wholesale electricity markets would facilitate an auction to meet ComEd's and PECO's POLR load obligations with reliable wholesale electricity supply when their long-term supply contracts with Generation expire. In the meantime, Energy Delivery's transmission facilities are being operated by PJM successfully with little impact on ComEd's or PECO's transmission rates and revenues.

Proposed Federal Energy Legislation. Attempts have been made to adopt comprehensive Federal energy legislation that, among other things, would repeal PUHCA, create incentives for the construction of transmission infrastructure, encourage but not mandate standardized competitive markets and expand the authority of the FERC to include overseeing the reliability of the bulk power system. Exelon cannot predict whether comprehensive energy legislation will be adopted and, if adopted, the final form of that legislation. Exelon would expect that comprehensive energy legislation would, if adopted, significantly affect the electric utility industry and its businesses. Such legislation did not pass Congress during 2004 but is expected to be reintroduced in Congress in early 2005.

Energy Delivery must maintain the availability and reliability of its delivery systems to meet customer expectations.

Increases in both customers and the demand for energy require expansion and reinforcement of Energy Delivery's delivery systems to increase capacity and maintain reliability. Failures of the

equipment or facilities used in its delivery systems could potentially interrupt energy delivery services and related revenues and increase repair expenses and capital expenditures. Such failures of Energy Delivery's systems or those of other utilities, including prolonged or repeated failures, could affect customer satisfaction, the level of regulatory oversight and Energy Delivery's maintenance and capital expenditures, and expose Energy Delivery to claims by customers and others.

Regulated utilities that are required to provide service to all customers and others within their service territory have generally been afforded liability protections against claims by customers relating to failure of service. Under Illinois law, ComEd can be required to pay damages to its customers in the event of extended outages affecting large numbers of its customers.

Energy Delivery has lost and may continue to lose energy customers and related revenue to other generation suppliers, although Energy Delivery continues to provide delivery services.

Energy Delivery's retail electric customers may purchase their generation supply from alternative electric suppliers, although Energy Delivery remains obligated to provide transmission and distribution service to customers in its service territories regardless of their generation supplier. As of December 31, 2004, no alternative electric supplier had approval from the ICC, and no electric utilities had chosen to enter the ComEd residential market for the supply of electricity. ComEd and PECO are each generally obligated to provide generation and delivery service to customers in their service territories at fixed rates or, in some instances, market-derived rates. In addition, customers who take service from an alternative electric supplier may later return to ComEd or PECO. The number of customers taking service from alternative electric suppliers depends in part on the prices being offered by those suppliers relative to the fixed prices that ComEd and PECO are authorized to charge by their state regulatory commissions. To the extent that customers leave traditional bundled tariffs and select a different electric supplier, Energy Delivery's revenues are likely to decline, and revenues and gross margins could vary from period to period.

Energy Delivery's post-transition period and provider of last resort obligations add uncertainty to planning its electricity supply needs and its ability to manage the related costs of that supply.

In 2004, the ICC initiated and conducted a workshop process to consider issues related to retail electric service in the post-transition period (i.e., post-2006). Issues addressed included utility wholesale supply procurement methodology, rates, competition and utility service obligations. All interested parties were invited to participate. The end result was a report to the Illinois General Assembly which was generally supportive of continuing under the existing regulatory framework and of utilities procuring supply through a full-requirements, vertical tranche, descending clock auction process with full recovery of the supply costs from retail customers. In 2005, utilities, including ComEd, are expected to begin to seek regulatory approval of structures that implement the methodologies supported by the report or such other proposals as they may choose to make. ComEd intends to make various filings during 2005 to begin the process to establish rates for the post transition period. These filings will include a proposal consistent with the auction process described above. All such methodologies and proposals will be subject to regulatory approval. ComEd cannot predict which particular proposals will be approved.

Because ComEd and PECO customers can "switch," that is, within limits they can choose an alternative electric supplier and then return to either ComEd or PECO and then go back to an alternative electric supplier, and so on, planning for Energy Delivery has a higher level of uncertainty than that traditionally experienced due to weather and the economy. Energy Delivery has no obligation to purchase power reserves to cover the load served by others. Energy Delivery manages its POLR obligation through full-requirements contracts with Generation, under which Generation supplies the

power requirements of ComEd and PECO. Also, Energy Delivery has sought through the regulatory process, as permitted by law, to retain the POLR obligation to customers who do not have competitive supply options and limit the POLR obligation for those customers that do have competitive supply options. In 2003, ComEd received ICC approval to phase out over several years its obligation to provide fixed-price energy under bundled rates to approximately 370 of its largest energy customers, which have demands of at least three MWs and represent an aggregate of approximately 2,500 MWs of load. To date, ComEd has not requested to phase out its obligation to provide fixed-price energy under bundled rates for other customers but continues to evaluate its options, particularly with respect to customers having energy demands of one to three MWs.

A mandatory renewable portfolio standard (RPS) could affect the cost of electricity purchased and sold by Energy Delivery.

Renewable and alternative fuel sources such as wind, solar, biomass and geothermal are anticipated to have an increasingly important role in creating fuel diversity in the generation of electricity. Federal or state legislation mandating a RPS could result in significant changes in Energy Delivery's business, including fuel cost and capital expenditures. Energy Delivery continues to monitor discussions related to RPSs at the Federal and state levels.

For additional information, see "Environmental Regulation—Renewable and Alternative Energy Portfolio Standards" in Item 1 of Exelon's 2004 Form 10-K.

Weather affects electricity and gas usage and, consequently, Energy Delivery's results of operations.

Temperatures above normal levels in the summer tend to increase summer cooling electricity demand and revenues, and temperatures below moderate levels in the winter tend to increase winter heating electricity and gas demand and revenues. As a corollary, moderate temperatures adversely affect the usage of energy and resulting revenues. Because of seasonal pricing differentials, coupled with higher consumption levels, Energy Delivery typically reports higher revenues in the third quarter of the fiscal year. However, extreme summer conditions or storms may stress Energy Delivery's transmission and distribution systems, resulting in increased maintenance costs and limiting its ability to meet peak customer demand. These extreme conditions may have detrimental effects on Energy Delivery's operations.

Economic conditions and activity in Energy Delivery's service territories directly affect the demand for electricity and gas.

Higher levels of development and business activity generally increase the number of Energy Delivery's customers and their average use of energy. Periods of recessionary economic conditions may adversely affect Energy Delivery's results of operations. Retail electric and gas sales growth on an annual basis is expected to be between 1% and 2% in the service territories of ComEd and PECO.

Generation

Generation is focused on efficiently providing reliable power through a generation portfolio with fuel and dispatch diversity. Generation's directive is to continue to increase fleet output and to improve fleet efficiency while sustaining operational safety. Generation's Power Team manages the output of Generation's assets and energy sales to optimize value and reduce the volatility of Generation's earnings and cash flows. Exelon believes that Generation will provide a steady source of earnings through its low-cost operations and will take advantage of higher wholesale prices when they can be

realized. More detailed explanations for each of these and other challenges in managing the Generation business are as follows:

Generation must effectively manage its power portfolio to meet its contractual commitments and to handle changes in the wholesale power markets.

The majority of Generation's portfolio is used to provide power under long-term purchase power agreements with ComEd and PECO. To the extent portions of the portfolio are not needed for that purpose, Generation's output is sold on the wholesale market. To the extent that its portfolio is not sufficient to meet the requirements of ComEd and PECO, Generation must purchase power in the wholesale power markets. Generation's financial results are dependent upon its ability to cost-effectively meet the load requirements of ComEd and PECO, to manage its power portfolio and to effectively handle the changes in the wholesale power markets.

Generation must effectively plan for the elimination of significant purchase power arrangements post 2006.

Generation sells a significant portion of its output to ComEd and PECO under long-term purchase power agreements. As a result of the continuing transition from a regulated environment, the agreement with ComEd, which expires at the end of 2006, is unlikely to be replaced with a similar arrangement. If the agreement is not replaced, Generation may need to sell more power at market-based prices. Illinois has considered both regulated and competitive models for the post-transition periods, including an auction-based model and new contractual arrangements with third parties, which may have shorter durations and lower volume sales. A regulated model may not adequately compensate Generation for its investment in its generating facilities. Increased market sales and new contractual arrangements under a competitive model may adversely affect Generation's credit risk due to an increase in the number of customers and the loss of a highly predictable revenue source.

The scope and scale of Generation's nuclear generating resources provide a cost advantage in meeting contractual commitments and enable Generation to sell power in the wholesale markets.

Generation's resources include interests in 11 nuclear generation stations, consisting of 19 units. Generation's nuclear fleet generated 136,621 GWhs, or more than half of Generation's total output, for the year ended December 31, 2004. As the largest generator of nuclear power in the United States, Generation can negotiate favorable terms for the materials and services that its business requires. Generation's nuclear plants benefit from stable fuel costs, minimal environmental impact from operations and a safe operating history.

Generation's financial performance may be affected by liabilities arising from its ownership and operation of nuclear facilities.

The ownership and operation of nuclear facilities involve risks as further described below.

Nuclear capacity factors. Capacity factors, particularly nuclear capacity factors, significantly affect Generation's results of operations. Nuclear plant operations involve substantial fixed operating costs but produce electricity at low variable costs due to low fuel costs. Consequently, to be successful, Generation must consistently operate its nuclear generating facilities at high capacity factors. Lower capacity factors increase Generation's operating costs by requiring Generation to generate additional energy from its fossil or hydroelectric facilities or purchase additional energy in the spot or forward markets in order to satisfy Generation's obligations to ComEd and PECO and other committed third-party sales. These sources generally have a higher operating cost than Generation incurs to generate energy from its nuclear stations.

Refueling outages. Outages at nuclear stations to replenish fuel require the station to be "turned off." Refueling outages are planned to occur once every 18 to 24 months and currently average approximately 25 days in duration. Generation has significantly decreased the length of refueling outages in recent years; however, when refueling outages at wholly and co-owned plants last longer than anticipated or Generation experiences unplanned outages, capacity factors decrease and Generation faces lower margins due to higher energy replacement costs and/or lower energy sales. Each 25-day outage, depending on the capacity of the station, will decrease the total nuclear annual capacity factor between 0.3% and 0.5%. The number of refueling outages, including the AmerGen plants and the co-owned Salem plant operated by PSEG, will increase from ten in 2004 to eleven in 2005; however, the projected total non-fuel capital expenditures for the nuclear plants will decrease in 2005 from 2004 by approximately \$40 million. Maintenance expenditures are expected to increase by approximately \$15 million in 2005 compared to 2004 as a result of the increased number of planned nuclear outages.

Nuclear fuel quality. The quality of nuclear fuel utilized by Generation can affect the efficiency and costs of Generation's operations. Certain of Generation's nuclear units have been identified as having a limited number of fuel performance issues. Remediation actions, including those required to address performance issues, could result in increased costs due to accelerated fuel amortization and/or increased outage costs. It is difficult to predict the total cost of these remediation procedures.

Spent nuclear fuel storage. Generation incurs costs on an annual basis for the storage of spent nuclear fuel. Under the terms of the settlement reached with the DOE in 2004, Generation will be reimbursed for costs of spent fuel storage. The approval of a national repository for the storage of spent nuclear fuel, such as the one proposed for Yucca Mountain, Nevada, and the timing of such facility opening, will significantly affect the costs associated with storage of spent nuclear fuel, and the ultimate amounts received from the DOE under the settlement. Also, the availability of a repository for spent nuclear fuel may affect the ability to fully decommission the nuclear units.

License Renewals. Generation's nuclear facilities are currently operating under 40-year Nuclear Regulatory Commission (NRC) licenses. Generation has applied for and received 20-year renewals for the licenses that will be expiring in the next ten years, excluding licenses for the AmerGen facilities. Generation has received 20-year renewals of the operating licenses for the Peach Bottom 2 and 3, Dresden 2 and 3 and Quad Cities 1 and 2 Units. In December 2004, the NRC issued an order that will permit Oyster Creek to operate beyond its license expiration in April 2009 if the NRC has not completed reviewing the application for renewal. The application for Oyster Creek's license renewal is anticipated to be filed by August 2005 in order to comply with this agreement. Generation intends to evaluate opportunities, as permitted by the NRC, to apply for license renewals for some or all of the remaining licenses. If the renewals are granted, Generation cannot assure that economics will support the continued operation of the facilities for all or any portion of the renewed license. If the NRC does not renew the operating licenses for Generation's nuclear stations, Generation's results of operations could be adversely affected by increased depreciation rates and accelerated future decommissioning payments.

Management believes the current status of Yucca Mountain will not impact Generation's ability to renew the licenses for its nuclear plants. However, should a national policy for the disposal of spent nuclear fuel not be developed, the unavailability of a repository for spent nuclear fuel could become a consideration by the NRC during future nuclear license renewal proceedings, including applications for new licenses, and may affect Generation's ability to fully decommission its nuclear units.

Regulatory risk. The NRC may modify, suspend or revoke licenses, shut down a nuclear facility and impose civil penalties for failure to comply with the Atomic Energy Act, related regulations or the terms of the licenses for nuclear facilities. A change in the Atomic Energy Act or the applicable regulations or licenses may require a substantial increase in capital expenditures or may result in

increased operating or decommissioning costs and significantly affect Generation's results of operations or financial position. Events at nuclear plants owned by others, as well as those owned by Generation, may cause the NRC to initiate such actions.

Operational risk. Operations at any of Generation's nuclear generation plants could degrade to the point where Generation has to shut down the plant or operate at less than full capacity. If this were to happen, identifying and correcting the causes may require significant time and expense. Generation may choose to close a plant rather than incur the expense of restarting it or returning the plant to full capacity. In either event, Generation may lose revenue and incur increased fuel and purchased power expense to meet supply commitments. For plants operated but not wholly owned by Generation, Generation may also incur liability to the co-owners.

On January 28, 2004, the NRC issued a letter requesting PSEG to conduct a review of its Salem facility, of which Generation owns 42.59%, to assess the workplace environment for raising and addressing safety issues. PSEG responded to the letter on February 28, 2004, and had independent assessments of the work environment at the facility performed. Assessment results were provided to the NRC in May 2004. The assessments concluded that Salem was safe for continued operation, but also identified issues that needed to be addressed. At an NRC public meeting on June 16, 2004, PSEG outlined its action plans to address these issues, which focus on safety conscious work environment, the corrective action program and work management. A letter documenting these plans and commitments was sent to the NRC on June 25, 2004. On July 30, 2004, the NRC provided a letter to PSEG indicating that it had completed its review. The letter indicated that the NRC has not identified any safety violations and that it appears that the PSEG action plan will address the key findings of both the NRC and PSEG assessments. On August 30, 2004, the NRC provided PSEG with its mid-cycle performance reviews of Salem, which detailed the NRC's plan for enhanced oversight related to the work environment. The letter indicated the NRC plans to continue with this heightened oversight until PSEG has concluded that substantial, sustainable progress has been made, and the NRC has completed a review that confirms PSEG's conclusions. Under the NRC oversight program, among other things, PSEG provided the NRC with a report of its progress at a public meeting in December 2004, and began publishing quarterly metrics to demonstrate performance in the fourth quarter of 2004. The next public meeting is scheduled for spring 2005.

The spent fuel pool at each Salem unit has an installed leakage collection system. This normal leakage path was found to be obstructed, causing concern about the extent of leakage contact with the fuel handling building's concrete structure. PSEG is developing a solution to maintain the design function of the leakage collection system and is investigating the extent of any structural degradation caused by the leakage. The investigation should take approximately one year. If any significant degradation is identified, the repair costs to the owners of the facility could be material. The NRC issued Information Notice 2004-05 in March 2004 concerning this emerging industry issue and Generation cannot predict what further actions the NRC may take on this matter.

Nuclear accident risk. Although the safety record of nuclear reactors, including Generation's, generally has been very good, accidents and other unforeseen problems have occurred both in the United States and elsewhere. The consequences of an accident can be severe and include loss of life and property damage. Any resulting liability from a nuclear accident may exceed Generation's resources, including insurance coverages, and significantly affect Generation's results of operations or financial position.

Nuclear insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. The limit as of December 31, 2004 is \$10.76 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by the Price-Anderson Act, Generation carries the maximum available amount of nuclear

liability insurance (currently \$300 million for each operating site). Claims exceeding that amount are covered through mandatory participation in a financial protection pool. Although the Price-Anderson Act has expired, only facilities applying for NRC licenses subsequent to its expiration are affected. Existing commercial generating facilities, such as those owned and operated by Generation, remain subject to the provisions of the Price-Anderson Act.

Nuclear Electric Insurance Limited (NEIL), a mutual insurance company to which Generation belongs, provides property and business interruption insurance for Generation's nuclear operations. In recent years, NEIL has made distributions to its members. Generation's distribution for 2004 was \$40 million, which was recorded as a reduction to operating and maintenance expenses in its Consolidated Statement of Income. Generation cannot predict the level of future distributions or if they will continue at all.

Decommissioning. Generation has an obligation to decommission its nuclear power plants. Based on estimates of decommissioning costs for each of the nuclear facilities in which Generation has an ownership interest, other than AmerGen facilities, the ICC permits ComEd and the PUC permits PECO to collect funds from their customers, which are deposited in nuclear decommissioning trust funds maintained by Generation. These funds, together with earnings thereon, will be used to decommission such nuclear facilities. The ICC permitted ComEd to recover \$73 million per year from retail customers for decommissioning for the years 2001 through 2004 and, depending upon the portion of the output of certain generating stations taken by ComEd, up to \$73 million annually in 2005 and 2006. Because ComEd is not expected to take all of the output of these stations, actual collections are expected to be less than \$73 million annually in 2005 and 2006. Subsequent to 2006, there will be no further recoveries of decommissioning costs from ComEd's customers. PECO is currently recovering \$33 million annually for nuclear decommissioning. Generation expects that these collections will continue through the operating license life of each of the former PECO units, with adjustments every five years to reflect changes in cost estimates and decommissioning trust fund performance. Decommissioning expenditures are expected to occur primarily after the plants are retired. Based on current licenses and anticipated renewals, decommissioning expenditures for plants in operation are currently estimated to begin in 2029. To fund future decommissioning costs, Generation held \$5.3 billion of investments in trust funds, including net unrealized gains and losses, at December 31, 2004.

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in certain minimum amounts at the end of the life of the facility to decommission the facility. Generation is required to provide to the NRC a biennial report by unit (annually for Generation's four retired units) addressing Generation's ability to meet the NRC-estimated funding levels (NRC Funding Levels) with scheduled contributions to and earnings on the decommissioning trust funds. As of December 31, 2004, Generation's 23 units met the NRC's Funding Levels. Generation will submit its next biennial report to the NRC in March 2005.

In 2003, the General Accounting Office (GAO) published a study on the NRC's need for more effective analyses to ensure the adequate accumulation of funds to decommission nuclear power plants in the United States. As it has in the past, the GAO concluded that accumulated and future proposed funding was inadequate to achieve NRC Funding Levels at a number of U.S. nuclear plants, including a number of Generation's plants. Generation has reviewed the GAO's report and believes that, in reaching its conclusions, the GAO did not consider all aspects of Generation's decommissioning strategy, such as fund growth during the decommissioning period. The inclusion of estimated earnings growth on Generation's nuclear trust funds during the decommissioning period virtually eliminates any funding shortfalls identified in the GAO report.

Generation currently believes that the amounts in nuclear decommissioning trust funds and future collections from ratepayers, together with earnings thereon, will provide adequate funding to

decommission its nuclear facilities in accordance with regulatory requirements. Forecasting investment earnings and costs to decommission nuclear generating stations requires significant judgment, and actual results may differ significantly from current estimates. Ultimately, when decommissioning activities are initiated, if the investments held by Generation's nuclear decommissioning trusts are not sufficient to fund the decommissioning of Generation's nuclear plants, Generation may be required to identify other means of funding its decommissioning obligations.

Generation relies on the availability of electric transmission facilities that it does not own or control to deliver its wholesale electric power to the purchasers of the power.

Generation depends on transmission facilities owned and operated by other companies, including ComEd and PECO, to deliver the power that it sells at wholesale. If transmission at these facilities is disrupted or transmission capacity is inadequate, Generation may not be able to sell and deliver its wholesale power. While Generation was not significantly affected by the failure in the transmission grid that served a large portion of the Northeastern United States and Canada during the August 2003 blackout, the North American transmission grid is highly interconnected and, in extraordinary circumstances, disruptions at a point within the grid can cause a systemic response that results in an extensive power outage. If a region's power transmission infrastructure is inadequate, Generation's recovery of wholesale costs and profits may be limited. In addition, if restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure.

The FERC has issued electric transmission initiatives that require electric transmission services to be offered unbundled from commodity sales. Although these initiatives are designed to encourage wholesale market transactions for electricity, access to transmission systems may in fact not be available if transmission capacity is insufficient because of physical constraints or because it is contractually unavailable. Generation also cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets.

Generation is directly affected by price fluctuations and other risks of the wholesale power market.

Generation fulfills its energy commitments from the output of the generating facilities that it owns as well as through buying electricity in both the wholesale bilateral and spot markets. The excess or deficiency of energy owned or controlled by Generation compared to its obligations exposes Generation to the risks of rising and falling prices in those markets, and Generation's cash flows may vary accordingly. Generation's cash flows from generation that is not used to meet its commitments to ComEd and PECO are largely dependent on wholesale prices of electricity and Generation's ability to successfully market energy, capacity and ancillary services. In the event that lower wholesale prices of electricity reduce Generation's current or forecasted cash flows, the carrying value of Generation's generating units may be determined to be impaired and Generation would be required to incur an impairment loss.

The wholesale spot market price of electricity for each hour is generally determined by the cost of supplying the next unit of electricity to the market during that hour. Many times, the next unit of electricity supplied would be supplied from generating stations fueled by fossil fuels, primarily natural gas. Consequently, the open-market wholesale price of electricity may reflect the cost of natural gas plus the cost to convert natural gas to electricity. Therefore, changes in the supply and cost of natural gas generally affect the open market wholesale price of electricity.

Credit Risk. In the bilateral markets, Generation is exposed to the risk that counterparties that owe Generation money or energy will not perform their obligations for operational or financial reasons.

In the event the counterparties to these arrangements fail to perform, Generation might be forced to purchase or sell power in the wholesale markets at less favorable prices and incur additional losses, to the extent of amounts, if any, already paid to the counterparties. In the spot markets, Generation is exposed to the risks of whatever default mechanisms exist in that market, some of which attempt to spread the risk across all participants, which may or may not be an effective way of lessening the severity of the risk and the amounts at stake. Generation is also a party to agreements with entities in the energy sector that have experienced rating downgrades or other financial difficulties.

In order to evaluate the viability of Generation's counterparties, Generation has implemented credit risk management procedures designed to mitigate the risks associated with these transactions. These policies include counterparty credit limits and, in some cases, require deposits or letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for netting of payables and receivables with the majority of its large counterparties. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The integration of the retail businesses of Exelon Energy subjects Generation to credit risk resulting from a new customer base.

Immature Markets. Certain wholesale spot markets are new and evolving markets that vary from region to region and are still developing practices and procedures. While the FERC has proposed initiatives to standardize wholesale spot markets, Generation cannot predict whether that effort will be successful, what form any of these markets will eventually take or what roles Generation will play in them. Problems in or the failure of any of these markets, as was experienced in California in 2000, could adversely affect Generation's business.

Hedging. The Power Team buys and sells energy and other products in the wholesale markets and enters into financial contracts to manage risk and hedge various positions in Generation's power generation portfolio. This activity, along with the effects of any specialized accounting for trading contracts, may cause volatility in Generation's future results of operations.

Weather. Generation's operations are affected by weather, which affects demand for electricity as well as operating conditions. Generation plans its business based upon normal weather assumptions. To the extent that weather is warmer in the summer or colder in the winter than assumed, Generation may require greater resources to meet its contractual requirements to ComEd and PECO. Extreme weather conditions or storms may affect the availability of generation capacity and transmission, limiting Generation's ability to source or send power to where it is sold. These conditions, which may not have been fully anticipated, may have an adverse effect by causing Generation to seek additional capacity at a time when wholesale markets are tight or to seek to sell excess capacity at a time when those markets are weak. Generation incorporates contingencies into its planning for extreme weather conditions, including potentially reserving capacity to meet summer loads at levels representative of warmer-than-normal weather conditions.

Excess capacity. Energy prices are also affected by the amount of supply available in a region. In the markets where Generation sells power, there has been a significant increase in the number of new power plants commencing commercial operations in recent years. An excess supply situation can lead to conditions with reduced wholesale market prices.

Generation's business is also affected by the restructuring of the energy industry.

Regional Transmission Organizations and Standard Market Platform. Generation is dependent on wholesale energy markets and open transmission access and rights by which

Generation delivers power to its wholesale customers, including ComEd and PECO. Generation uses the wholesale regional energy markets to sell power that Generation does not need to satisfy its long-term contractual obligations, to meet long-term obligations not provided by its own resources and to take advantage of price opportunities.

Wholesale markets have only been implemented in certain areas of the country and each market has unique features which may create trading barriers among the markets. The FERC has proposed initiatives, including RTOs, to encourage the development of large regional, uniform markets and to eliminate trade barriers. The FERC's effort to promote RTOs throughout the states has generated substantial opposition by some state regulators and other governmental bodies. In addition, efforts to develop a RTO have been abandoned in certain regions. Generation supports the development of RTOs and implementation of standard market protocols for these regions, and others, but cannot predict their success or whether they will lead to the development of the envisioned large, successful wholesale markets.

Approximately 79% of Generation's generating resources, which include directly owned assets and capacity obtained through long-term contracts, are located in the region encompassed by PJM, following PJM's expansion to the Midwest markets in 2004. The PJM market has been the most successful and liquid regional market. Generation's future results of operations may be affected by the successful expansion of that market to the Midwest and the implementation of any market changes mandated by the FERC.

Provider of Last Resort. As discussed above, ComEd and PECO each have POLR obligations that they have effectively transferred to Generation through full-requirements contracts. Because the choice of electricity generation supplier lies with the customer, planning to meet these obligations has a higher level of uncertainty than that traditionally experienced due to weather and the economy. It is difficult for Generation to plan the energy demand of ComEd and PECO customers. The uncertainty regarding the amount of ComEd and PECO load for which Generation must prepare increases Generation's costs and may limit its sales opportunities. A significant under-estimation of the electric-load requirements of ComEd and PECO could result in Generation not having enough power to cover its supply obligation, in which case Generation would be required to buy power from third parties or in the spot markets at prevailing market prices. Those prices may not be as favorable or as manageable as Generation's long-term supply expenses and thus could increase Generation's total costs.

As the demand for energy rises in the future, it may be necessary to increase capacity through the construction of new generating facilities. Both Illinois and Pennsylvania statutes contemplate that future generation will be built at the risk of market participants. Any construction of new generating facilities by Generation would be subject to market concentration tests administered by the FERC.

Effective management of capital projects is important to Generation's business.

Generation's business is capital intensive and requires significant investments in energy generation and in other internal infrastructure projects. The inability of Generation to effectively manage its capital projects could adversely affect Generation's results of operations.

The interaction between the energy delivery and generation businesses provides Exelon a partial hedge of wholesale energy market prices.

The price of power purchased and sold in the open wholesale energy markets can vary significantly in response to market conditions. The amounts of power that Generation provides to ComEd and PECO vary from month to month; however, delivery requirements are generally highest in the summer when wholesale power prices are also generally highest. Therefore, energy committed by

Generation to serve ComEd and PECO customers is not exposed to the price uncertainty of the open wholesale energy market. Generally, between 60% and 70% of Generation's supply serves ComEd and PECO customers. Consequently, Generation has limited its earnings exposure from the volatility of the wholesale energy market to the energy generated in excess of the ComEd and PECO requirements, as well as any other contracted longer term obligations.

As its business continues to evolve, Generation is exploring other long-term contracts or arrangements, which arrangements could limit its earnings opportunity if market prices are significantly different than its expectations.

Generation's financial performance depends on its ability to respond to competition in the energy industry.

As a result of industry restructuring, numerous generation companies created by the disaggregation of vertically integrated utilities have become active in the wholesale power generation business. In addition, independent power producers (IPP) have become prevalent in the wholesale power industry. In recent years, IPPs and the generation companies of disaggregated utilities have installed new generating capacity at a pace greater than the growth of electricity demand. These new generating facilities may be more efficient than Generation's facilities. The introduction of new technologies could increase competition, which could lower prices and have an adverse effect on Generation's results of operations or financial condition. Generation's financial performance depends on its ability to respond to competition in the energy industry.

Power Team's risk management policies cannot fully eliminate the risk associated with its power trading activities.

Power Team's power trading (including fuel procurement and power marketing) activities expose Generation to risks of commodity price movements. Generation attempts to manage its exposure through enforcement of established risk limits and risk management procedures. These risk limits and risk management procedures may not always be followed or may not work as planned and cannot eliminate the risks associated with these activities. Even when its policies and procedures are followed, and decisions are made based on projections and estimates of future performance, results of operations may be diminished if the judgments and assumptions underlying those decisions prove to be wrong or inaccurate. Factors, such as future prices and demand for power and other energy-related commodities, become more difficult to predict and the calculations become less reliable the further into the future estimates are made. As a result, Generation cannot predict the impact that its power trading and risk management decisions may have on its business, operating results or financial position.

General Business

The Registrants may make acquisitions that do not achieve the intended financial results.

The Registrants may continue to pursue investments that fit their strategic objectives and improve their financial performance. On December 20, 2004, Exelon announced the execution of the Merger Agreement with PSEG. Exelon and PSEG entered into the Merger Agreement with the expectation that the Merger would result in various benefits, including, among other things, cost savings and operating efficiencies. Achieving the anticipated benefits of the Merger is subject to a number of uncertainties, including whether the businesses of Exelon and PSEG are integrated in an efficient and effective manner, as well as general competitive factors in the market place. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues generated by the combined company and diversion of management's time and energy and could have an adverse effect on the combined company's business, financial condition, operating results and prospects.

Before the Merger may be completed, various approvals or consents must be obtained from FERC, the SEC, the NRC and various utility regulatory, antitrust and other authorities in the United States and in foreign jurisdictions. The governmental authorities from which these approvals are required may impose conditions on completion of the Merger or require changes to the terms of the Merger. These conditions or changes could have the effect of delaying completion of the Merger or imposing additional costs on or limiting the revenues of the combined company and or the individual registrants following the Merger, any of which might have a material adverse effect on the combined company or the individual registrants following completion of the Merger.

Additionally, the Merger Agreement contains certain termination rights for both Exelon and PSEG, and further provides that, upon termination of the Merger Agreement under specified circumstances, (1) Exelon may be required to pay PSEG a termination fee of \$400 million plus PSEG's transaction expenses up to \$40 million and (2) PSEG may be required to pay Exelon a termination fee of \$400 million plus Exelon's transaction expenses up to \$40 million.

Among the factors considered by the board of directors of Exelon in connection with its approvals of the Merger Agreement were the benefits as well as the risks that could result from the Merger. Exelon cannot give any assurance that these benefits will be realized within the time periods contemplated or even that they will be realized at all.

The Registrants' results of operations may be affected by the divestiture of businesses and facilities.

The Registrants may decide to divest businesses or facilities that do not fit with their strategic objectives or improve their financial performance, such as the sale of Generation's interest in Sithe and the divestiture or wind-down of the remaining businesses of Enterprises. The Registrants may be unable to successfully divest or wind down these businesses and facilities for a number of reasons, including an inability to locate appropriate buyers or to negotiate acceptable terms for transactions. In addition, the amount that the Registrants may realize from a divestiture of a business or a facility is subject to fluctuating market conditions that may contribute to pricing and other terms that may be materially different than expected and could result in losses on sales. The Registrants also face risks in managing these businesses prior to their divestitures due to potential turnover of key employees and operating the businesses through their transition. The Registrants may also incur costs related to the wind-down of businesses that will not be sold or unfavorable post-close purchase price adjustments related to divestitures.

Results of operations are affected by increasing costs.

Inflation affects the Registrants through increased operating costs and increased capital costs for plant and equipment. As a result of the rate freezes and caps under which the Energy Delivery business operates and price pressures due to competition, Energy Delivery may not be able to pass the costs of inflation through to its customers. In addition, the Registrants face rising medical benefit costs, which are increasing at a rate that greatly exceeds the rate of general inflation. If the Registrants are unable to successfully manage their medical benefit costs, their results of operations could be negatively affected.

Market performance affects decommissioning trust funds and benefit plan asset values.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under pension and postretirement benefit plans and to decommission Generation's nuclear plants. The Registrants have significant obligations in these areas and hold significant assets in these trusts. A decline in the market value of those assets, as was experienced from 2000 to 2002, may increase the funding requirements of these obligations.

Regulations imposed by the SEC under PUHCA affect business operations.

Exelon is subject to regulation by the SEC under PUHCA as a result of its ownership of ComEd and PECO. That regulation affects Exelon's ability to:

- diversify, by generally restricting investments to traditional electric and gas utility businesses and related businesses;
- invest in or operate SEC-approved, non-utility companies beyond authorized financial and operating thresholds;
- issue securities, by requiring the prior approval of the SEC or, for ComEd and PECO, requiring the approval of state regulatory commissions;
- engage in transactions among affiliates without the SEC's prior approval and, then, only at cost, since the PUHCA regulates business between affiliates in a utility holding company system;
- make dividend payments in specified situations;
- make intercompany loans in specified companies;
- restructure capitalization to the extent the equity ratio falls below 30%; and
- operate with a "complex" corporate structure.

The Registrants may incur substantial costs to fulfill their obligations related to environmental matters.

The businesses in which the Registrants operate are subject to extensive environmental regulation by local, state and Federal authorities. These laws and regulations affect the manner in which they conduct their operations and make capital expenditures. These regulations affect how the Registrants handle air and water emissions and solid waste disposal and are an important aspect of their operations. In addition, the Registrants are subject to liability under these laws for the costs of remediating environmental contamination of property now or formerly owned by the Registrants and of property contaminated by hazardous substances they generate. They believe that they have a responsible environmental management and compliance program; however, they have incurred and expect to incur significant costs related to environmental compliance, site remediation and clean-up. Remediation activities associated with manufactured gas plant operations conducted by predecessor companies will be one component of such costs. Also, they are 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.

As of December 31, 2004, Exelon, ComEd, PECO and Generation had reserves for environmental investigation and remediation costs of \$124 million, \$61 million, \$47 million and \$16 million, respectively, exclusive of decommissioning liabilities. The Registrants have accrued and will continue to accrue amounts that are believed prudent to cover these environmental liabilities, but the Registrants cannot predict with any certainty whether these amounts will be sufficient to cover their environmental liabilities. The Registrants cannot predict whether they will incur other significant liabilities for any additional investigation and remediation costs at additional sites not currently identified by them, environmental agencies or others, or whether such costs will be recoverable from third parties.

In July 2004, the EPA issued the final Phase II rule implementing Section 316(b) of the Clean Water Act. This rule establishes national requirements for reducing the adverse environmental impacts from the entrainment and impingement of aquatic organisms at existing power plants. The rule identifies particular standards of performance with respect to entrainment and impingement and requires each facility to monitor and validate this performance in future years. All of Exelon's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems are potentially most affected. Those facilities are Clinton, Cromby,

Dresden, Eddystone, Fairless Hills, Handley, Mountain Creek, New Boston, Oyster Creek, Peach Bottom, Quad Cities, and Salem. Exelon is currently evaluating compliance options at its affected plants. At this time, Exelon cannot estimate the effect that compliance with the Phase II rule requirements will have on the operation of Generation's generating facilities and its future results of operations, financial condition and cash flows. There are many factors to be considered and evaluated to determine the extent to which there will be financial and operational impacts. The considerations and evaluations include, but are not limited to obtaining clarifying interpretations of the requirements from state regulators, resolving outstanding litigation proceedings concerning the requirements, completing studies to establish biological baselines for each facility, and performing environmental and economic cost benefit evaluation of the potential compliance alternatives in accordance with the requirements.

In June 2001, the New Jersey Department of Environmental Protection (NJDEP) issued a renewed NPDES permit for Salem, expiring in July 2006, allowing for the continued operation of Salem with its existing cooling water system. An application for renewal of that permit, including a demonstration of compliance with the requirements of the recently published Federal Water Pollution Control Act Section 316(b) regulations, must be submitted to NJDEP by February 2, 2006 unless the NJDEP grants additional time to collect information to comply with the new regulations. NJDEP advised PSEG in a letter dated July 12, 2004 that it strongly recommends reducing cooling water intake flow commensurate with closed-cycle cooling as a compliance option for Salem. PSEG has not made a determination regarding how it will demonstrate compliance with the Section 316(b) regulations. If application of the Section 316(b) regulations requires the retrofitting of Salem's cooling water intake structure to reduce cooling water intake flow commensurate with closed-cycle cooling, the retrofit and any resulting cost of interim replacement power could result in material costs of compliance to the owners of the facility.

For additional information regarding environmental matters, see "Environmental Regulation" in ITEM 1 of Exelon's 2004 Form 10-K.

The Registrants must actively manage the security of their people and facilities.

As a result of the events of September 11, 2001, the electric industry has developed additional security guidelines. The electric industry, through the North American Electric Reliability Council, developed physical security guidelines, which were accepted by the United States Department of Energy and which may become mandatory through regulation or legislation. The gas industry, through the American Gas Association, developed physical security guidelines that were accepted by the United States Department of Transportation.

Generation has also initiated security measures, including implementation of measures mandated by the NRC for the nuclear facilities, to safeguard its employees and critical operations and is actively participating in industry initiatives to identify methods to maintain the reliability of its energy production and delivery systems. These security measures have resulted in and are expected to continue to result in increased costs. On a continuing basis, Generation evaluates enhanced security measures at certain critical locations, enhanced response and recovery plans and assesses long-term design changes and redundancy measures. Additionally, the energy industry is working with governmental authorities to ensure that emergency plans are in place and critical infrastructure vulnerabilities are addressed in order to maintain the reliability of the country's energy systems. These measures will involve additional expense to develop and implement.

Changes in the availability and cost of insurance mean that the Registrants have greater exposure to economic loss due to property damage and liability.

The Registrants carry property damage and liability insurance for their properties and operations. As a result of significant changes in the insurance marketplace, due in part to terrorist acts, the

available coverage and limits may be less than the amount of insurance obtained in the past, the costs of obtaining such insurance may be higher and the recovery for losses due to terrorist acts may be limited. The Registrants are self-insured for deductibles and to the extent that any losses may exceed the amount of insurance maintained. A claim that exceeds the amounts available under their property damage and liability insurance, together with the deductible, would negatively affect their results of operations.

Taxation has a significant impact on results of operations.

Tax reserves and the recoverability of deferred tax assets. The Registrants are required to make judgments regarding the potential tax effects of various financial transactions and their ongoing operations to estimate their obligations to taxing authorities. These tax obligations include income, real estate, use and employment-related taxes and ongoing appeals related to these tax matters. These judgments include reserves for potential adverse outcomes regarding tax positions that have been taken. The Registrants must also assess their ability to generate capital gains in future periods to realize tax benefits associated with capital losses previously generated or expected to be generated in future periods. Capital losses may be deducted only to the extent of capital gains realized during the year of the loss or during the three prior or five succeeding years. The Registrants do not record valuation allowances for deferred tax assets related to capital losses that the Registrants believe will be realized in future periods. Generation has recorded valuation allowances against certain deferred assets associated with capital losses due to the consolidation of Sithe.

Increases in state income taxes. Due to the revenue needs of the states in which the Registrants operate, various state income tax and fee increases have been proposed or are being contemplated. The Registrants cannot predict whether legislation or regulation will be introduced, the form of any legislation or regulation, whether any such legislation or regulation will be passed by the state legislatures or regulatory bodies, or, if enacted, whether any such legislation or regulation would be effective retroactively or prospectively. If enacted, these changes could increase state income tax expense and could have a negative impact on the Registrants' results of operations and cash flows.

Investments in synthetic fuel-producing facilities. Exelon has purchased interests in three synthetic fuel-producing facilities, which increased Exelon's net income by \$70 million in 2004. Tax credits generated by the production of synthetic fuel are subject to a phase-out provision that gradually reduces tax credits as the annual average wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. If domestic crude oil prices remain high in 2005, the tax credits and net income generated by the investments may be reduced substantially. In addition, Exelon has recorded an intangible asset related to its investments in these facilities with a net carrying value of \$208 million at December 31, 2004 that could become impaired if domestic crude oil prices continue to increase in the future.

Exelon and its subsidiaries have guaranteed the performance of third parties that may result in substantial cost in the event of non-performance.

Exelon and its subsidiaries have issued certain guarantees of the performance of others, which obligate Exelon to perform in the event that the third parties do not perform. In the event of non-performance by the third parties to these guarantees, Exelon and its subsidiaries could incur substantial cost to fulfill their obligations under these guarantees. Such performance could have a material impact on the financial statements of Exelon and its subsidiaries. See Note 20 of Exelon's Notes to Consolidated Financial Statements for additional information regarding guarantees.

New Accounting Pronouncements

See Note 1 of Exelon's Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exelon, ComEd, PECO and Generation are exposed to market risks associated with credit and interest rates. Exelon and Generation are also exposed to market risks associated with commodity and equity prices. The inherent risk in market-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, counterparty credit, interest rates and equity security prices. Exelon's RMC sets forth risk management policies and objectives and establishes procedures for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity and risk exposures. The RMC is chaired by the chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning, vice president of strategy, vice president of audit services and officers from each of Exelon's business units. The RMC reports to the Exelon Board of Directors on the scope of the derivative and risk management activities.

Commodity Price Risk (Exelon, ComEd and Generation)

Commodity price risk is associated with market price movements resulting from excess or insufficient generation, changes in fuel costs, market liquidity and other factors. Trading activities and non-trading marketing activities include the purchase and sale of electric capacity, energy and fossil fuels, including oil, gas, coal and emission allowances. The availability and prices of energy and energy-related commodities are subject to fluctuations due to factors such as weather, governmental environmental policies, changes in supply and demand, state and Federal regulatory policies and other events. Additionally, ComEd has exposure to commodity price risk in relation to CTC revenues collected from its customers.

Generation

Normal Operations and Hedging Activities. Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including Energy Delivery's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge anticipated exposures. The maximum length of time over which cash flows related to energy commodities are currently being cash-flow hedged is three years. Generation has an estimated 90% hedge ratio in 2005 for its energy marketing portfolio. This hedge ratio represents the percentage of its forecasted aggregate annual economic generation supply that is committed to firm sales, including sales to Energy Delivery's retail load. Energy Delivery's retail load assumptions are based on forecasted average demand. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, energy market option volatility and actual loads. During peak periods Generation's amount hedged declines to meet its commitment to Energy Delivery. Market price risk exposure is the risk of a change in the value of unhedged positions. Absent any efforts to mitigate market price exposure, the estimated market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity is approximately a \$32 million decrease in net income. This sensitivity assumes a 90% hedge ratio and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

Proprietary Trading Activities. Generation began to use financial contracts for proprietary trading purposes in the second quarter of 2001. Proprietary trading includes all contracts entered into

purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a very small portion of Generation's overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than one percent of Generation's owned and contracted supply of electricity. Generation expects this level of proprietary trading activity to continue in the future. Trading portfolio activity for the year ended December 31, 2004 resulted in an immaterial impact on earnings that included a \$3 million (before income taxes) unrealized mark-to-market gain. The daily Value-at-Risk (VaR) on proprietary trading activity averaged \$100,000 of exposure over the last 18 months. Because of the relative size of the proprietary trading portfolio in comparison to Generation's total gross margin of \$3,768 million, Generation has not segregated proprietary trading activity in the following tables. The trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop-loss and value-at-risk limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the power marketing activities.

Generation's energy contracts are accounted for under SFAS No. 133. Most non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133 discussed in Critical Accounting Policies and Estimates. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in other comprehensive income (OCI) and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts are recognized in current earnings. Changes in the derivatives recorded at fair value are recognized in earnings unless specific hedge accounting criteria are met, in which case those changes are recorded in earnings as an offset to the changes in fair value of the exposure being hedged or deferred in accumulated OCI and recognized in earnings as the hedged transactions occur.

The following detailed presentation of Generation's trading and non-trading marketing activities at Generation is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers (CCRO).

The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2003 to December 31, 2004. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings, as shown in the previous table, as well as the settlements from OCI to earnings and changes in fair value for the hedging activities that are recorded in accumulated OCI on the Consolidated Balance Sheets.

	<u>Total</u>
Total mark-to-market energy contract net liabilities at January 1, 2003	\$(163)
Total change in fair value during 2003 of contracts recorded in earnings	206
Reclassification to realized at settlement of contracts recorded in earnings	(227)
Reclassification to realized at settlement from OCI	273
Effective portion of changes in fair value—recorded in OCI	<u>(305)</u>
Total mark-to-market energy contract net liabilities at December 31, 2003	(216)
Total change in fair value during 2004 of contracts recorded in earnings	158
Reclassification to realized at settlement of contracts recorded in earnings	(197)
Reclassification to realized at settlement from OCI	475
Effective portion of changes in fair value—recorded in OCI	(512)
Purchase/sale/disposal of existing contracts or portfolios subject to mark-to-market	<u>147</u>
Total mark-to-market energy contract net liabilities at December 31, 2004	<u>\$(145)</u>

The following table details the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of December 31, 2004 and 2003:

	December 31,	
	2004	2003
Current assets	\$ 403	\$ 322
Noncurrent assets	373	100
Total mark-to-market energy contract assets	<u>776</u>	<u>422</u>
Current liabilities ^(a)	(598)	(505)
Noncurrent liabilities	(323)	(133)
Total mark-to-market energy contract liabilities	<u>(921)</u>	<u>(638)</u>
Total mark-to-market energy contract net liabilities	<u><u>\$(145)</u></u>	<u><u>\$(216)</u></u>

(a) Mark-to-market energy contract liabilities at December 31, 2003 do not reflect a \$76 million interest-rate swap that was included in current mark-to-market derivative liabilities within Generation's Consolidated Balance Sheet.

The majority of Generation's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask mid-point prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, region and product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2004 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

The following table, which presents maturity and source of fair value of mark-to-market energy contract net liabilities, provides two fundamental pieces of information. First, the table provides the source of fair value used in determining the carrying amount of Generation's total mark-to-market asset or liability. Second, this table provides the maturity, by year, of Generation's net assets/liabilities, giving an indication of when these mark-to-market amounts will settle and either generate or require cash.

(in millions)	Maturities within						Total Fair Value
	2005	2006	2007	2008	2009	2010 and Beyond	
<i>Normal Operations, qualifying cash-flow hedge contracts (a):</i>							
Actively quoted prices	\$ (4)	\$ 1	\$—	\$—	\$—	\$—	\$ (3)
Prices provided by other external sources	(190)	(27)	(4)	—	—	—	(221)
Total	<u>\$(194)</u>	<u>\$(26)</u>	<u>\$ (4)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(224)</u>
<i>Normal Operations, other derivative contracts (b):</i>							
Actively quoted prices	\$ 11	\$ (2)	\$—	\$—	\$—	\$—	\$ 9
Prices provided by other external sources	(23)	6	1	—	—	—	(16)
Prices based on model or other valuation methods	7	11	8	11	11	38	86
Total	<u>\$ (5)</u>	<u>\$ 15</u>	<u>\$ 9</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 38</u>	<u>\$ 79</u>

- (a) Mark-to-market gains and losses on contracts that qualify as cash-flow hedges are recorded in other comprehensive income.
- (b) Mark-to-market gains and losses on other non-trading and trading derivative contracts that do not qualify as cash-flow hedges are recorded in earnings.

The table below provides details of effective cash-flow hedges under SFAS No. 133 included in the balance sheet as of December 31, 2004. The data in the table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place; however, since under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of accumulated OCI related to cash-flow hedges for the years ended December 31, 2004 and December 31, 2003, providing insight into the drivers of the changes (new hedges entered into during the period and changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest-rate hedging activities.

(in millions)	Total Cash-Flow Hedge OCI Activity, Net of Income Tax		
	Power Team Normal Operations and Hedging Activities	Interest-Rate and Other Hedges	Total-Cash Flow Hedges
Accumulated OCI, January 1, 2003	\$(114)	\$(14)	\$(128)
Changes in fair value	(186)	(2)	(188)
Reclassifications from OCI to net loss	167	—	167
Accumulated OCI derivative loss at December 31, 2003	(133)	(16)	(149)
Changes in fair value	(312)	17	(295)
Disposal of existing Boston Generating contracts	16	—	16
Reclassifications from OCI to net income	290	—	290
Exelon Energy Company opening balance	2	—	2
Sithe Energies, Inc. opening balance	—	(10)	(10)
Accumulated OCI derivative loss at December 31, 2004	<u>\$(137)</u>	<u>\$ (9)</u>	<u>\$(146)</u>

ComEd

ComEd has exposure to commodity price risk in relation to revenue collected from customers who elect to purchase energy from an alternative electric supplier or the ComEd PPO. Revenues collected from customers electing the PPO include commodity charges at market-based prices and CTC revenues which are calculated to provide the customer with a credit for the market price for electricity. Because the change in revenues from customers electing the PPO is significantly offset by the change in CTC revenues, ComEd does not believe that its exposure to such a market price decrease would be material.

ComEd's CTC revenues are also collected from customers who elect to purchase energy from an alternative electric supplier. ComEd's CTC rates are reset once a year in the spring, and customers can elect to lock in their CTC rates for a one or multiple year terms. Based on the current customers who have elected the one-year CTC rates, ComEd has performed a sensitivity analysis to determine the net impact of a 10% increase in the average market price of electricity from June 2005 through December 2005 which would result in a \$5 million decrease in CTC revenues in 2005. A 10% decrease from June 2005 through December 2005 in market prices would result in a \$5 million increase in CTC revenues in 2005. The result may be significantly affected if additional customers elect to purchase energy from an alternative electric supplier or if customers elect to purchase their energy from ComEd.

Credit Risk (Exelon, ComEd, PECO and Generation)

ComEd and PECO

Credit risk for Energy Delivery is managed by the credit and collection policies of ComEd and PECO, which are consistent with state regulatory requirements. ComEd and PECO are each currently

obligated to provide service to all electric customers within their respective franchised territories. For the year ended December 31, 2004, ComEd's ten largest customers represented approximately 2% of its retail electric revenues and PECO's ten largest customers represented approximately 7% of its retail electric and gas revenues. ComEd and PECO record a provision for uncollectible accounts, based upon historical experience and third-party studies, to provide for the potential loss from nonpayment by these customers.

Under the Competition Act, licensed entities, including alternative electric suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. Currently, there are no third parties providing billing of PECO's charges to customers or advanced metering; however, if this occurs, PECO would be subject to credit risk related to the ability of the third parties to collect such receivables from the customers.

Generation

Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment. Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits and letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following tables provide information on Generation's credit exposure, net of collateral, as of December 31, 2004 and 2003. They further delineate that exposure by the credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The figures in the tables below do not include sales to Generation's affiliates or exposure through ISOs which are discussed below.

Rating as of December 31, 2004 ^(a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	\$151	\$ 33	\$118	—	\$—
Non-investment grade	98	20	78	1	63
No external ratings					
Internally rated—investment grade	13	—	13	—	—
Internally rated—non-investment grade	3	—	3	—	—
Total	\$265	\$ 53	\$212	1	\$ 63

(a) This table does not include accounts receivable exposure.

Rating as of December 31, 2003 ^(a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	\$116	\$—	\$116	1	\$ 20
Non-investment grade	22	7	15	—	—
No external ratings					
Internally rated—investment grade	13	—	13	—	—
Internally rated—non-investment grade	1	—	1	—	—
Total	\$152	\$ 7	\$145	1	\$ 20

(a) This table does not include accounts receivable exposure and forward credit exposure related to Exelon Energy.

Rating as of December 31, 2004 ^(a)	Maturity of Credit Risk Exposure			Total Exposure Before Credit Collateral
	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	
Investment grade	\$149	\$ 2	\$—	\$151
Non-investment grade	91	7	—	98
No external ratings				
Internally rated—investment grade	13	—	—	13
Internally rated—non-investment grade	3	—	—	3
Total	\$256	\$ 9	\$—	\$265

(a) This table does not include accounts receivable exposure.

Dynegy. As previously disclosed, at December 31, 2004, Generation was counterparty to Dynegy in various energy transactions and had financial and credit risk associated with Dynegy through Generation's investment in Sithe. On January 31, 2005, Generation sold its investment in Sithe and, accordingly, is no longer subject to potential credit risk associated with Dynegy's performance under the financial swap arrangement that Dynegy had with Sithe. See Note 25 of Exelon's Notes to Consolidated Financial Statements for further discussion of Generation's sale of Sithe.

Generation previously disclosed the future economic value of AmerGen's purchased power arrangement with Illinois Power Company (Illinois Power), a subsidiary of Dynegy, could be affected by events related to Dynegy's financial condition. On September 30, 2004, Dynegy sold Illinois Power to a third party with an investment grade rating, which eliminated Generation's credit risk associated with Illinois Power and Dynegy.

Collateral. As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. If Generation can reasonably claim that it is willing and financially able to perform its obligations, it may

be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

ISOs. Generation participates in the following established, real-time energy markets, which are administered by ISOs: PJM, ISO New England, New York ISO, California ISO, MISO, Southwest Power Pool, Inc. and the Electric Reliability Council of Texas. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets that are operated by the ISOs. In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by the ISOs, the ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the ISOs may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on Generation's financial condition, results of operations or net cash flows.

Exelon

Exelon's consolidated balance sheet included a \$486 million net investment in direct financing leases as of December 31, 2004. The investment in direct financing leases represents future minimum lease payments due at the end of the thirty-year lives of the leases of \$1,492 million, less unearned income of \$1,006 million. The future minimum lease payments are supported by collateral and credit enhancement measures including letters of credit, surety bonds and credit swaps issued by high credit quality financial institutions. Management regularly evaluates the credit worthiness of Exelon's counterparties to these direct financing leases.

Interest-Rate Risk (Exelon, ComEd, PECO and Generation)

Variable Rate Debt. The Registrants use a combination of fixed-rate and variable-rate debt to reduce interest-rate exposure. The Registrants also use interest-rate swaps when deemed appropriate to adjust exposure based upon market conditions. Additionally, the Registrants use forward-starting interest-rate swaps and treasury rate locks to lock in interest-rate levels in anticipation of future financings. These strategies are employed to achieve a lower cost of capital. As of December 31, 2004, a hypothetical 10% increase in the interest rates associated with variable-rate debt would result in a \$2 million decrease in Exelon's pre-tax earnings. A hypothetical 10% increase in the interest rates associated with variable-rate debt would result in a decrease in pre-tax earnings of less than \$1 million at ComEd, PECO and Generation.

Cash-Flow Hedges. In September and October 2004, Exelon entered into forward-starting interest-rate swaps in the aggregate notional amount of \$240 million to lock in interest-rate levels in anticipation of future financings. At the time of the swap trades, the debt issuance that these swaps were hedging was considered probable; therefore, Exelon accounted for these interest-rate swap transactions as cash-flow hedges. In December 2004, it became apparent that the timing of the debt issuance would be deferred until 2005 and, consequently, Exelon unwound the \$240 million forward-starting interest-rate swaps. Exelon recognized an ineffectiveness gain of less than \$1 million pursuant to SFAS No. 133. Additionally, Exelon paid approximately \$4 million to the counterparties due to the swap unwind. The net loss resulting from the amount paid to the counterparties less the ineffectiveness gain will be amortized over the life of the new debt issuance.

Based upon a revised date of expected debt issuance, Exelon entered into a new series of forward-starting interest-rate swaps in the aggregate notional amount of \$200 million. At December 31, 2004, these interest-rate swaps, designated as cash-flow hedges, had an aggregate fair market value of \$2 million based on the present value difference between the contract and market rates at

December 31, 2004. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount that would be paid by the counterparties to Exelon.

The aggregate fair value of the interest-rate swaps designated as cash-flow hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2004 is estimated to be \$6 million in the counterparties' favor. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount Exelon would pay the counterparties.

The aggregate fair value of the interest-rate swaps designated as cash-flow hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2004 is estimated to be \$10 million in Exelon's favor. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount the counterparties would pay Exelon.

In 2004, PECO entered into a forward-starting interest-rate swap in the aggregate notional amount of \$75 million to lock in interest-rate levels in anticipation of a future financing. The debt issuance that this swap was hedging was considered probable; therefore, PECO accounted for this interest-rate swap transaction as a hedge. PECO settled this swap designated as a cash flow hedge for net proceeds of approximately \$5 million. The proceeds were recorded in other comprehensive income and are being amortized over the life of the debt issuance.

At December 31, 2004, ComEd, PECO and Generation did not have any interest-rate swaps designated as cash-flow hedges.

Fair-Value Hedges. In 2004, ComEd entered into fixed-to-floating interest-rate swaps in order to maintain its targeted percentage of variable-rate debt associated with fixed-rate debt issuances in the aggregate amount of \$240 million. At December 31, 2004, these interest-rate swaps, designated as fair-value hedges, had an aggregate fair market value of \$9 million based on the present value difference between the contract and market rates at December 31, 2004. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount that would be paid by the counterparties to ComEd.

The aggregate fair value of the interest-rate swaps designated as fair-value hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2004 is estimated to be \$16 million in ComEd's favor. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount the counterparties would pay ComEd.

The aggregate fair value of the interest-rate swaps designated as fair-value hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2004 is estimated to be \$1 million in ComEd's favor. If these derivative instruments had been terminated at December 31, 2004, this estimated fair value represents the amount the counterparties would pay ComEd.

In 2004, ComEd settled certain interest-rate swaps designated as fair-value hedges in the aggregate amount of \$485 million for total proceeds of approximately \$32 million, which included a \$26 million settlement amount and \$6 million of accrued interest. The \$26 million settlement amount will be amortized as a reduction to interest expense over the remaining life of the related debt.

Equity Price Risk (Exelon and Generation)

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning Generation's nuclear plants. As of December 31, 2004, Generation's

decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$329 million reduction in the fair value of the trust assets. See Defined Benefit Pension and Other Postretirement Welfare Benefits in the Critical Accounting Estimates section for information regarding the pension and other postretirement benefit trust assets.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting. Exelon's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2004, Exelon's internal control over financial reporting was effective.

February 22, 2005

Management's assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 112 of this Financial Information supplement.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Exelon Corporation:

We have completed an integrated audit of Exelon Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Exelon Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 our opinion.

As discussed in Note 1 to the consolidated financial statements, Exelon Corporation changed its method of accounting for goodwill as of January 1, 2002; its method of accounting for asset retirement obligations as of January 1, 2003; and its method of accounting for variable interest entities in 2003 and 2004.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 111 of this Financial Information supplement, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 22, 2005

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Income

(in millions, except per share data)	For the Years Ended December 31,		
	2004	2003	2002
Operating revenues	\$14,515	\$15,812	\$14,955
Operating expenses			
Purchased power	2,727	3,459	3,262
Purchased power from AmerGen Energy Company, LLC	—	382	273
Fuel	2,355	2,534	1,727
Impairment of Boston Generating, LLC long-lived assets	—	945	—
Operating and maintenance	3,976	4,508	4,345
Depreciation and amortization	1,305	1,126	1,340
Taxes other than income	719	581	709
Total operating expenses	11,082	13,535	11,656
Operating income	3,433	2,277	3,299
Other income and deductions			
Interest expense	(548)	(869)	(964)
Interest expense to affiliates	(357)	(12)	(2)
Distributions on preferred securities of subsidiaries	(3)	(39)	(45)
Equity in earnings (losses) of unconsolidated affiliates	(153)	33	80
Other, net	140	(261)	304
Total other income and deductions	(921)	(1,148)	(627)
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	2,512	1,129	2,672
Income taxes	692	331	998
Income before minority interest and cumulative effect of changes in accounting principles	1,820	798	1,674
Minority interest	21	(5)	(4)
Income before cumulative effect of changes in accounting principles	1,841	793	1,670
Cumulative effect of changes in accounting principles (net of income taxes of \$17, \$69 and \$(90) in 2004, 2003 and 2002, respectively)	23	112	(230)
Net income	\$ 1,864	\$ 905	\$ 1,440
Average shares of common stock outstanding			
Basic	661	651	645
Diluted	669	657	649
Earnings per average common share—basic:			
Income from continuing operations before cumulative effect of changes in accounting principles	\$ 2.79	\$ 1.22	\$ 2.59
Cumulative effect of changes in accounting principles	0.03	0.17	(0.36)
Net income	\$ 2.82	\$ 1.39	\$ 2.23
Earnings per average common share—diluted:			
Income from continuing operations before cumulative effect of changes in accounting principles	\$ 2.75	\$ 1.21	\$ 2.57
Cumulative effect of changes in accounting principles	0.03	0.17	(0.35)
Net income	\$ 2.78	\$ 1.38	\$ 2.22
Dividends per common share	\$ 1.26	\$ 0.96	\$ 0.88

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows

(in millions)	For the Years Ended December 31,		
	2004	2003	2002
Cash flows from operating activities			
Net income	\$ 1,864	\$ 905	\$ 1,440
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel	1,933	1,681	1,701
Other decommissioning-related activities	169	37	—
Cumulative effect of changes in accounting principles (net of income taxes)	(23)	(112)	230
Impairment of investments	10	309	41
Impairment of goodwill and other long-lived assets	1	990	—
Deferred income taxes and amortization of investment tax credits	202	(36)	278
Provision for uncollectible accounts	87	94	129
Equity in (earnings) losses of unconsolidated affiliates	153	(33)	(80)
(Gains) losses on sales of investments and wholly owned subsidiaries	(162)	25	(199)
Net realized (gains) losses on nuclear decommissioning trust funds	(72)	16	32
Other non-cash operating activities	(24)	18	101
Changes in assets and liabilities			
Accounts receivables	(123)	102	(357)
Inventories	(60)	(54)	(37)
Other current assets	79	(68)	45
Accounts payable, accrued expenses and other current liabilities	173	(74)	43
Income taxes	293	(271)	288
Net realized and unrealized mark-to-market and hedging transactions	49	(10)	18
Pension and non-pension postretirement benefits obligations	(270)	(144)	(165)
Other noncurrent assets and liabilities	119	9	134
Net cash flows provided by operating activities	<u>4,398</u>	<u>3,384</u>	<u>3,642</u>
Cash flows from investing activities			
Capital expenditures	(1,921)	(1,954)	(2,150)
Proceeds from liquidated damages	—	92	—
Proceeds from nuclear decommissioning trust fund sales	2,320	2,341	1,612
Investment in nuclear decommissioning trust funds	(2,587)	(2,564)	(1,824)
Collection of other notes receivable	59	35	(35)
Proceeds from sales of investments and wholly owned subsidiaries	329	263	287
Proceeds from sales of long-lived assets	52	10	—
Acquisitions of businesses, net of cash acquired	—	(272)	(445)
Investments in synthetic fuel-producing facilities	(56)	—	—
Change in restricted cash	55	(92)	(24)
Net cash increase from consolidation of Sithe Energies, Inc.	19	—	—
Other investing activities	(6)	32	17
Net cash flows used in investing activities	<u>(1,736)</u>	<u>(2,109)</u>	<u>(2,562)</u>
Cash flows from financing activities			
Issuance of long-term debt	232	3,015	1,223
Retirement of long-term debt	(1,629)	(2,922)	(2,134)
Issuance of long-term debt to financing affiliates	—	103	—
Retirement of long-term debt to financing affiliates	(728)	—	—
Change in short-term debt	164	(355)	321
Issuance of mandatorily redeemable preferred securities	—	200	—
Retirement of mandatorily redeemable preferred securities	—	(250)	(18)
Payment on acquisition note payable to Sithe Energies, Inc.	(27)	(446)	—
Retirement of preferred stock	—	(50)	—
Dividends paid on common stock	(831)	(620)	(563)
Proceeds from employee stock plans	240	181	75
Purchase of treasury stock	(82)	—	—
Contribution from minority interest of consolidated subsidiary	—	—	43
Other financing activities	34	(96)	(43)
Net cash flows used in financing activities	<u>(2,627)</u>	<u>(1,240)</u>	<u>(1,096)</u>
Increase (decrease) in cash and cash equivalents	<u>35</u>	<u>35</u>	<u>(16)</u>
Cash and cash equivalents at beginning of period	<u>493</u>	<u>469</u>	<u>485</u>
Cash and cash equivalents, including cash held for sale	<u>528</u>	<u>504</u>	<u>469</u>
Cash classified as held for sale on the consolidated balance sheet	<u>—</u>	<u>11</u>	<u>—</u>
Cash and cash equivalents at end of period	<u>\$ 528</u>	<u>\$ 493</u>	<u>\$ 469</u>

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

<u>(in millions)</u>	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 528	\$ 493
Restricted cash and investments	31	97
Accounts receivable, net		
Customer	1,649	1,567
Other	409	676
Mark-to-market derivative assets	403	337
Inventories, at average cost		
Fossil fuel	230	212
Materials and supplies	312	310
Notes receivable from affiliate	—	92
Deferred income taxes	68	122
Assets held for sale	—	242
Other	296	413
Total current assets	3,926	4,561
Property, plant and equipment, net	21,482	20,630
Deferred debits and other assets		
Regulatory assets	4,790	5,226
Nuclear decommissioning trust funds	5,262	4,721
Investments	804	955
Goodwill	4,705	4,719
Mark-to-market derivative assets	383	133
Other	1,418	991
Total deferred debits and other assets	17,362	16,745
Total assets	\$42,770	\$41,936

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

(in millions)	December 31,	
	2004	2003
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper	\$ 490	\$ 326
Note payable to Sithe Energies, Inc.	—	90
Long-term debt due within one year	427	1,385
Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transitional Trust due within one year	486	470
Accounts payable	1,255	1,238
Mark-to-market derivative liabilities	598	584
Accrued expenses	1,143	1,260
Liabilities held for sale	—	61
Other	483	306
Total current liabilities	4,882	5,720
Long-term debt	7,292	7,889
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transitional Trust	4,311	5,055
Long-term debt to other financing trusts	545	545
Deferred credits and other liabilities		
Deferred income taxes	4,488	4,320
Unamortized investment tax credits	275	288
Asset retirement obligations	3,981	2,997
Pension obligations	1,993	1,668
Non-pension postretirement benefits obligations	1,065	1,053
Spent nuclear fuel obligation	878	867
Regulatory liabilities	2,204	1,891
Mark-to-market derivative liabilities	323	141
Other	981	912
Total deferred credits and other liabilities	16,188	14,137
Total liabilities	33,218	33,346
Commitments and contingencies		
Minority interest of consolidated subsidiaries	42	—
Preferred securities of subsidiaries	87	87
Shareholders' equity		
Common stock (No par value, 1,200 shares authorized, 666.7 and 656.4 shares outstanding at December 31, 2004 and 2003, respectively)	7,598	7,292
Treasury stock, at cost (2.5 shares held at December 31, 2004)	(82)	—
Retained earnings	3,353	2,320
Accumulated other comprehensive loss	(1,446)	(1,109)
Total shareholders' equity	9,423	8,503
Total liabilities and shareholders' equity	\$42,770	\$41,936

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity

(Dollars in millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2001 . . .	642,014	\$6,961	\$—	\$ (2)	\$1,169	\$ (26)	\$8,102
Net income	—	—	—	—	1,440	—	1,440
Long-term incentive plan activity	4,098	87	—	—	—	—	87
Employee stock purchase plan issuances	514	11	—	—	—	—	11
Amortization of deferred compensation	—	—	—	1	—	—	1
Common stock dividends declared	—	—	—	—	(567)	—	(567)
Other comprehensive loss, net of income taxes of \$(850)	—	—	—	—	—	(1,332)	(1,332)
Balance, December 31, 2002 . . .	646,626	7,059	—	(1)	2,042	(1,358)	7,742
Net income	—	—	—	—	905	—	905
Long-term incentive plan activity	9,322	222	—	—	—	—	222
Employee stock purchase plan issuances	418	11	—	—	—	—	11
Amortization of deferred compensation	—	—	—	1	—	—	1
Common stock dividends declared	—	—	—	—	(625)	—	(625)
Redemption premium on PECO preferred stock	—	—	—	—	(2)	—	(2)
Other comprehensive income, net of income taxes of \$217	—	—	—	—	—	249	249
Balance, December 31, 2003 . . .	656,366	7,292	—	—	2,320	(1,109)	8,503
Net income	—	—	—	—	1,864	—	1,864
Long-term incentive plan activity	10,013	296	—	—	—	—	296
Employee stock purchase plan issuances	309	10	—	—	—	—	10
Common stock purchases	—	—	(82)	—	—	—	(82)
Common stock dividends declared	—	—	—	—	(831)	—	(831)
Adjustments to accumulated other comprehensive loss due to the consolidation of Sithe	—	—	—	—	—	(6)	(6)
Other comprehensive loss, net of income taxes of \$(190)	—	—	—	—	—	(331)	(331)
Balance, December 31, 2004 . . .	<u>666,688</u>	<u>\$7,598</u>	<u>\$(82)</u>	<u>\$—</u>	<u>\$3,353</u>	<u>\$(1,446)</u>	<u>\$9,423</u>

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Comprehensive Income

(in millions)	For the Years Ended December 31,		
	2004	2003	2002
Net income	\$1,864	\$ 905	\$ 1,440
Other comprehensive income (loss)			
Minimum pension liability, net of income taxes of \$(228), \$16 and \$(597), respectively	(392)	26	(1,007)
SFAS No. 143 transition adjustment, net of income taxes of \$167	—	168	—
Change in net unrealized gain (loss) on cash-flow hedges, net of income taxes of \$6, \$5 and \$(129), respectively	8	9	(193)
Foreign currency translation adjustment, net of income taxes of \$1, \$0 and \$0, respectively	1	3	—
Unrealized gain (loss) on marketable securities, net of income taxes of \$31, \$29, and \$(124), respectively	52	43	(132)
Total other comprehensive income (loss)	<u>(331)</u>	<u>249</u>	<u>(1,332)</u>
Total comprehensive income	<u>\$1,533</u>	<u>\$1,154</u>	<u>\$ 108</u>

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements

(Dollars in millions, except per share data unless otherwise noted)

1. Significant Accounting Policies

Description of Business

Exelon Corporation (Exelon) is a utility services holding company engaged, through its subsidiaries, in the energy delivery, generation and other businesses discussed below (see Note 22—Segment Information). The energy delivery businesses (Energy Delivery) include the purchase and retail sale of electricity and distribution and transmission services by Commonwealth Edison Company (ComEd) in northern Illinois and by PECO Energy Company (PECO) in southeastern Pennsylvania and the purchase and retail sale of natural gas and related distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia. The generation business consists principally of the electric generating facilities and wholesale energy marketing operations of Exelon Generation Company, LLC (Generation), the competitive retail sales business of Exelon Energy Company (Exelon Energy), Generation's investment in Sithe Energies, Inc. (Sithe) and certain other generation projects. Exelon's other businesses, constituting the enterprises segment, consist of the infrastructure and electrical contracting services of Exelon Enterprises Company, LLC (Enterprises). Effective January 1, 2004, Exelon Energy Company, which had been previously included in the Enterprises segment, became part of Generation. See Note 2—Acquisitions and Dispositions for information regarding the disposition of businesses within the Enterprises segment and Note 25—Subsequent Events for information regarding the sale of Sithe.

Basis of Presentation

Exelon's consolidated financial statements include the accounts of entities in which it has a controlling financial interest, other than certain financing trusts of ComEd and PECO described below, and its proportionate interests in jointly owned electric utility plants, after the elimination of intercompany transactions. A controlling financial interest is evidenced by either a voting interest greater than 50% or a risk and rewards model that identifies Exelon or one of its subsidiaries as the primary beneficiary of the variable interest entity. Investments and joint ventures in which Exelon does not have a controlling financial interest and certain financing trusts of ComEd and PECO are accounted for under the equity or cost methods of accounting.

Exelon owns 100% of all significant consolidated subsidiaries, either directly or indirectly, except for ComEd, of which Exelon owns more than 99%, Southeast Chicago Energy Project, LLC (SCEP), of which Exelon owns 71%, and Sithe, of which Exelon owned 50% at December 31, 2004. Exelon has reflected the third-party interests in the above majority-owned investments as minority interests in its consolidated financial statements. As a result of the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150), on July 1, 2003, Exelon reclassified the minority interest associated with SCEP to a long-term liability. The total minority interest related to SCEP was \$49 million and \$51 million as of December 31, 2004 and 2003.

In accordance with FASB Interpretation No. (FIN) 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46-R), Sithe was consolidated in Exelon's financial statements as of March 31, 2004. Certain trusts and limited partnerships that are financing subsidiaries of ComEd and PECO have issued debt or mandatorily redeemable preferred securities. Due to the adoption of FIN 46-R, these subsidiaries are no longer consolidated within the financial statements of Exelon as of December 31, 2003, or as of July 1, 2003 for PECO Energy Capital Trust IV (PECO Trust IV). See "Variable Interest Entities" below for further discussion of the adoption of FIN 46-R and the resulting consolidation of Sithe and the deconsolidation of these financing subsidiaries.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

The share and per-share amounts included in Exelon's Consolidated Financial Statements and Notes to Consolidated Financial Statements have been adjusted for all periods presented to reflect a 2-for-1 stock split of Exelon's common stock with a distribution date of May 5, 2004. See Note 18—Common Stock for additional information regarding the stock split.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect net income or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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. Areas in which significant estimates have been made include, but are not limited to, the accounting for nuclear decommissioning costs and asset retirement obligations, inventory reserves, allowance for doubtful accounts, goodwill and asset impairments, pension and other postretirement benefits, derivative instruments, fixed asset depreciation, environmental costs, taxes, severance and unbilled energy revenues.

Accounting for the Effects of Regulation

Exelon accounts for its operations in accordance with accounting policies prescribed by the regulatory authorities having jurisdiction, principally the Illinois Commerce Commission (ICC) and the Pennsylvania Public Utility Commission (PUC) under state public utility laws, the Federal Energy Regulatory Commission (FERC) under various Federal laws, and the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA), and Energy Delivery applies SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71) when appropriate. SFAS No. 71 requires Energy Delivery to record in its financial statements the effects of rate regulation for utility operations that 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. Exelon believes that it is probable that currently recorded regulatory assets and liabilities will be recovered in future rates. If a separable portion of Energy Delivery's business were no longer to meet the provisions of SFAS No. 71, Exelon would be required to eliminate from its financial statements the effects of regulation for that portion.

Variable Interest Entities

FIN 46-R addressed the requirements for consolidating certain variable interest entities. FIN 46 was effective for Exelon's variable interest entities created after January 31, 2003. FIN 46-R was effective December 31, 2003 for Exelon's other variable interest entities that were considered to be special-purpose entities and as of March 31, 2004 for all other variable interest entities.

Exelon consolidated Sithe, 50% owned through a wholly owned subsidiary of Generation, as of March 31, 2004 pursuant to the provisions of FIN 46-R and recorded income of \$32 million (net of income taxes) as a result of the reversal of guarantees of Sithe's commitments previously recorded by

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued) (Dollars in millions, except per share data unless otherwise noted)

Generation. This income was reported as a cumulative effect of a change in accounting principle in the first quarter of 2004. As of March 31, 2004, Generation was a 50% owner of Sithe, and Exelon had accounted for Sithe as an unconsolidated equity method investment prior to March 31, 2004. Sithe owns and operates power-generating facilities and was sold by Generation on January 31, 2005. See Note 3—Sithe for additional information on the consolidation of Sithe and Note 25—Subsequent Events for additional information on the sale of Sithe in 2005.

PECO Trust IV, a financing subsidiary of PECO created in May 2003, was deconsolidated from the financial statements of Exelon pursuant to the provisions of FIN 46 as of July 1, 2003. Pursuant to the provisions of FIN 46-R, as of December 31, 2003, the financing trusts of ComEd, namely ComEd Financing II (formed in November 1996), ComEd Financing III (formed in September 2002), ComEd Funding LLC (formed in July 1998) and ComEd Transitional Funding Trust (formed in October 1998), and the other financing trusts of PECO, namely PECO Energy Capital Trust III (PECO Trust III) (formed in April 1998) and PECO Energy Transition Trust (PETT) (formed in June 1998), were deconsolidated from Exelon's financial statements. Amounts owed to these financing trusts at December 31, 2004 and 2003 of \$5,342 million and \$6,070 million, respectively, were recorded as debt to financing trusts within the Consolidated Balance Sheets.

This change in presentation related to the financing trusts had no effect on Exelon's net income. In accordance with FIN 46-R, prior periods were not restated. The maximum exposure to loss as a result of ComEd and PECO's involvement with the financing trusts is \$62 million and \$87 million, respectively, at December 31, 2004.

Revenues

Operating Revenues. Operating revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, Exelon accrues an estimate for the unbilled amount of energy delivered or services provided to customers (see Note 6—Accounts Receivable).

Option Contracts, Swaps, and Commodity Derivatives. Premiums received and paid on option contracts and swap arrangements considered "normal" derivatives pursuant to SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133) are amortized to revenue and expensed over the lives of the contracts. Certain option contracts and swap arrangements are considered derivative instruments and are recorded at fair value with subsequent changes in fair value recognized as revenues and expenses, unless hedge accounting is applied. Commodity derivatives used for trading purposes are accounted for using the mark-to-market method with unrealized gains and losses recognized in operating revenues.

Trading Activities. Exelon accounts for its trading activities under the provisions of Emerging Issues Task Force (EITF) Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3), which requires revenues and energy costs related to energy trading contracts to be presented on a net basis in the income statement.

Physically Settled Derivative Contracts. Exelon accounts for realized gains and losses on physically settled derivative contracts not "held for trading purposes" in accordance with EITF Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities” (EITF 03-11).

EITF 03-11 was ratified by the FASB in August 2003. The EITF concluded that determining whether realized gains and losses on physically settled derivative contracts not “held for trading purposes” should be reported in the income statement on a gross or net basis is a matter of judgment that depends on the relevant facts and circumstances. Exelon adopted EITF 03-11 as of January 1, 2004 and presented \$966 million of purchased power and \$14 million of fuel expense net within revenues during 2004. Prior periods were not reclassified. The adoption of EITF 03-11 had no effect on Exelon’s net income. Had EITF 03-11 been retroactively applied to 2003, operating revenues, purchased power and fuel expense would have been affected as follows:

<u>2003</u>	<u>As Reported</u>	<u>EITF 03-11 Impact</u>	<u>Pro Forma</u>
Operating revenue	\$15,812	\$(996)	\$14,816
Purchased power	3,841	(943)	2,898
Fuel expense	2,534	(53)	2,481

Exelon is unable to determine the impact on operating revenues, purchased power and fuel expense, had EITF 03-11 been applied retroactively to 2002 results of operations, due to system constraints.

Stock-Based Compensation

Exelon accounts for its stock-based compensation plans under the intrinsic method prescribed by Accounting Principles Board No. 25, “Accounting for Stock Issued to Employees” (APB No. 25) and related interpretations and follows the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS No. 123), and SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123.” Accordingly, compensation expense related to stock options recognized within the Consolidated Statements of Income was insignificant in 2004, 2003 and 2002. Expense recognized related to other stock-based compensation plans is further described in Note 18—Common Stock. The tables below show the effect on Exelon’s net income and earnings per share for 2004, 2003 and 2002 had Exelon elected to account for all of its stock-based compensation plans using the fair-value method under SFAS No. 123:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income—as reported	\$1,864	\$ 905	\$1,440
Add: Stock-based compensation expense included in reported net income, net of income taxes	39	19	12
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes ^(a)	(60)	(39)	(45)
Pro forma net income	<u>\$1,843</u>	<u>\$ 885</u>	<u>\$1,407</u>
Earnings per share:			
Basic—as reported	\$ 2.82	\$ 1.39	\$ 2.23
Basic—pro forma	\$ 2.79	\$ 1.36	\$ 2.18
Diluted—as reported	\$ 2.78	\$ 1.38	\$ 2.22
Diluted—pro forma	\$ 2.75	\$ 1.35	\$ 2.17

(a) The fair value of options granted was estimated using a Black-Scholes option pricing model.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Income Taxes

Deferred Federal and state income taxes are provided on all significant temporary differences between the book basis and the tax basis of assets and liabilities and for tax benefits carried forward. Investment tax credits previously utilized 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.

Pursuant to the Internal Revenue Code, Exelon files a consolidated Federal income tax return that includes its subsidiaries in which it owns at least 80% of the outstanding stock. Income taxes are allocated to each of Exelon's subsidiaries included in the filing of the consolidated Federal income tax return based on the separate return method. Exelon records its income tax valuation allowance by assessing which deferred tax assets are more likely than not to be realized in the future (see Note 13—Income Taxes).

Losses on Recquired Debt

Recoverable losses on reacquired debt related to regulated operations are deferred and amortized to interest expense over the life of new debt issued to finance the debt redemption consistent with rate recovery for rate-making purposes. Losses on other reacquired debt are recognized in Exelon's Consolidated Statements of Income as incurred (see Note 21—Supplemental Financial Information).

Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. Other comprehensive income primarily relates to unrealized gains or losses on securities held in nuclear decommissioning trust funds and unrealized gains and losses on cash-flow hedge instruments. Comprehensive income is reflected in the Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Statements of Comprehensive Income.

Cash and Cash Equivalents

Exelon considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Investments

As of December 31, 2004, restricted cash and investments primarily represented restricted cash related to Sithe's Independence Plant partnership distribution fund. As of December 31, 2003, restricted cash and investments primarily represented liquidated damages receipts at Generation and proceeds from a ComEd pollution control bond offering in December 2003 which were applied to pay pollution control bonds upon their maturity in January 2004.

Restricted cash and investments not available for general operations or to satisfy current liabilities are classified as noncurrent assets. As of December 31, 2004, \$93 million of restricted cash and investments were classified within deferred debits and other assets, which included \$83 million of debt service reserves, major overhaul reserves of \$7 million and lease service reserves of \$3 million. As of December 31, 2003, there were no restricted cash and investments classified as noncurrent assets.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects Exelon's best estimate of probable losses in the accounts receivable balances. The allowance is based on known troubled accounts, historical experience and other currently available evidence. Customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, typically monthly. Customer accounts are written off based upon approved regulatory or legislative requirements.

Inventories

Inventory is recorded at the lower of cost or market, and provisions are made for excess and obsolete inventory.

Fossil Fuel. Fossil fuel inventory includes the weighted average costs of stored natural gas, coal and oil. The costs of natural gas, coal and oil are generally included in inventory when purchased and charged to fuel expense when used. Fossil fuel also includes propane at cost. PECO has several long-term storage contracts for natural gas as well as a liquefied natural gas storage facility.

Materials and Supplies. Materials and supplies inventory generally includes the average costs of transmission, distribution and generating plant materials. Materials are generally charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

Emission Allowances

Emission allowances are included in inventories and deferred debits or other assets and are carried at the lower of weighted average cost or market and charged to fuel expense as they are used in operations. Exelon's emission allowance balances as of December 31, 2004 and 2003 were \$106 million and \$105 million, respectively.

Marketable Securities

Marketable securities are classified as available-for-sale securities and are reported at fair value pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). Unrealized gains and losses, net of tax, on nuclear decommissioning trust funds transferred to Generation from PECO and ComEd are considered in the determination of the regulatory assets and liabilities on Exelon's Consolidated Balance Sheets. See Note 21—Supplemental Financial Information for additional information regarding Exelon's regulatory assets and liabilities. Unrealized gains and losses on nuclear decommissioning trust funds for the AmerGen units are reported in other comprehensive income. Prior to the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) on January 1, 2003, unrealized gains and losses on marketable securities held in nuclear decommissioning trust funds were reported in accumulated depreciation for operating units transferred to Generation from PECO and as other comprehensive income for operating and retired units transferred to Generation from ComEd. At December 31, 2004 and 2003, Exelon had no held-to-maturity securities.

Purchased Gas Adjustment Clause

PECO's natural 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 rates. Differences

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued) (Dollars in millions; except per share data unless otherwise noted)

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. At December 31, 2004 and 2003, deferred energy costs of \$71 million and \$81 million, respectively, were recorded in other current assets on Exelon's Consolidated Balance Sheets.

Leases

Exelon accounts for leases in accordance with SFAS No. 13 "Accounting for Leases" and determines whether its long-term power purchase and sales contracts are leases pursuant to EITF Issue No. 01-8, "Determining Whether an Arrangement is a Lease" (EITF 01-8) which applies to arrangements initiated or modified after October 1, 2003. At the inception of the lease, or subsequent modification, Exelon determines whether the lease is an operating or capital lease based upon its terms and characteristics. Several of Exelon's long-term power purchase agreements which have been determined to be operating leases have significant contingent rental payments which are dependent on the future operating characteristics of the associated plants such as plant availability. Exelon recognizes contingent rental expense when it becomes probable of payment.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. The cost of maintenance, repairs and minor replacements of property is charged to maintenance expense as incurred.

For Energy Delivery, upon retirement, the cost of regulated property, net of salvage, is charged to accumulated depreciation and removal costs reduce the related regulated liability in accordance with the composite method of depreciation. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of any gain or loss on disposition.

For Generation, upon retirement, the cost of property, including net salvage cost, is charged to accumulated depreciation.

See Note 7—Property, Plant and Equipment and Note 21—Supplemental Financial Information for additional information regarding property, plant and equipment.

Nuclear Fuel

The cost of nuclear fuel is capitalized and charged to fuel expense using the unit-of-production method. The estimated cost of disposal of Spent Nuclear Fuel (SNF) is established per the Standard Waste Contract with the Department of Energy (DOE) and is expensed at one mill (\$.001) per kilowatthour of net nuclear generation. On-site SNF storage costs are capitalized or expensed, as incurred, based upon the nature of the work performed.

Nuclear Outage Costs

Costs associated with nuclear outages are recorded in the period incurred.

Capitalized Software Costs

Costs incurred during the application development stage of software projects that are developed or obtained for internal use are capitalized. At December 31, 2004 and 2003, net unamortized

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

capitalized software costs totaled \$311 million and \$356 million, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed ten years. Certain capitalized software costs are being amortized over fifteen years pursuant to regulatory approval. During 2004, 2003 and 2002, Exelon amortized capitalized software costs of \$80 million, \$69 million and \$64 million, respectively.

Depreciation and Amortization

Depreciation is provided over the estimated service lives of property, plant and equipment on a straight-line basis using the composite method. 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. See Note 7—Property, Plant and Equipment for information regarding a change in Energy Delivery's depreciation rates.

<u>Asset Category</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Electric—transmission and distribution	2.82%	2.81%	3.11%
Electric—generation	3.34%	2.90%	3.58%
Gas	2.52%	2.38%	2.13%
Common—gas and electric	4.60%	7.53%	6.40%
Other property and equipment	6.77%	8.20%	7.88%

Amortization of regulatory assets is provided over the recovery period specified in the related legislation or regulatory agreement. See Note 21—Supplemental Financial Information for further information regarding Exelon's regulatory assets.

Nuclear Generating Station Decommissioning

Exelon accounts for the costs of decommissioning its nuclear generating stations in accordance with SFAS No. 143. See Note 14—Nuclear Decommissioning and Spent Fuel Storage for information regarding the adoption and application of SFAS No. 143 and "Cumulative Effect of Changes in Accounting Principles" below for pro forma net income and earnings per common share for the year ended December 31, 2002, adjusted as if SFAS No. 143 had been applied during that period.

Capitalized Interest and Allowance for Funds Used During Construction

Exelon uses SFAS No. 34, "Capitalizing Interest Costs" to calculate the costs during construction of debt funds used to finance its non-regulated construction projects. Exelon recorded capitalized interest of \$11 million, \$15 million and \$20 million in 2004, 2003 and 2002, respectively.

Allowance for funds used during construction (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 non-cash credit to AFUDC that is included in interest expense for debt-related funds and other income and deductions for equity-related funds. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities (see Note 21—Supplemental Financial Information). Exelon recorded credits to AFUDC of \$5 million, \$16 million and \$19 million in 2004, 2003 and 2002, respectively.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Guarantees

Beginning February 1, 2003, pursuant to FIN 45, "Guarantor's Accounting and Disclosure Requirements, Including Indirect Guarantees of Indebtedness to Others" (FIN 45), Exelon recognizes, at the inception of a guarantee, a liability for the fair market value of the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

The liability that is initially recognized at the inception of the guarantee is reduced as Exelon is released from risk under the guarantee. Depending on the nature of the guarantee, Exelon's release from risk may be recognized only upon the expiration or settlement of the guarantee or by a systematic and rational amortization method over the term of the guarantee. The recognition and subsequent adjustment of the liability is highly dependent upon the nature of the associated guarantee.

Asset Impairments

Long-Lived Assets. Exelon evaluates the carrying value of long-lived assets to be held and used for impairment whenever indications of impairment exist in accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). The carrying value of long-lived assets is considered impaired when the projected undiscounted cash flows are less than the carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair value. Fair value is determined primarily by available market valuations or, if applicable, discounted cash flows. See Note 2—Acquisitions and Dispositions for a description of the impairment charge recorded in 2003 related to the long-lived assets of Boston Generating, LLC (Boston Generating).

Upon meeting certain criteria defined in SFAS No. 144, the assets and associated liabilities that compose a disposal group are classified as held for sale and the carrying value of these assets is adjusted downward, if necessary, to the estimated sales price, less cost to sell. See Note 2—Acquisitions and Dispositions for a description of assets and liabilities classified as held for sale as of December 31, 2003 and impairments recorded related to those assets.

Goodwill. Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. As of January 1, 2002, Exelon adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142) and recorded a loss of \$230 million as a cumulative effect of a change in accounting principle upon its adoption. Pursuant to SFAS No. 142, goodwill is not amortized but is tested for impairment at least annually or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. See Note 9—Intangible Assets for information regarding the adoption of SFAS No. 142 and goodwill impairment studies that have been performed.

Investments. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. If the cost of an investment exceeds its fair value, Exelon evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as Exelon's intent and ability to hold the investment. Exelon also considers specific adverse conditions related to the financial health of and business outlook for the investee. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis is established. See Note 3—Sithe for a description of the impairments recorded in 2003 related to Generation's investment in Sithe and Note 16—Fair Value of Financial Assets and Liabilities for a description of the other-than-temporary impairments in the nuclear decommissioning trust funds determined in 2004.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Derivative Financial Instruments

Exelon enters into derivatives to manage its exposure to fluctuations in interest rates, changes in interest rates related to planned future debt issuances and changes in the fair value of outstanding debt. Generation utilizes derivatives with respect to energy transactions to manage the utilization of its available generating capability and the supply of wholesale energy to its affiliates. Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Generation enters into energy-related derivatives for trading purposes. Exelon's derivative activities are in accordance with Exelon's Risk Management Policy (RMP).

Exelon accounts for derivative financial instruments under SFAS No. 133. Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases or normal sales exception. Derivatives on the balance sheet are presented as current or noncurrent mark-to-market derivative assets or liabilities. Changes in the fair value of derivatives are recognized in earnings unless specific hedge accounting criteria are met, in which case those changes are recorded in earnings as an offset to the changes in fair value of the exposure being hedged or deferred in accumulated other comprehensive income and recognized in earnings as hedged transactions occur. Amounts recorded in earnings are included in revenue, purchased power or other, net on the consolidated statements of income.

Revenues and expenses on contracts that qualify as normal purchases or normal sales are recognized when the underlying physical transaction is completed. "Normal" purchases and sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments 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. While these contracts are considered derivative financial instruments under SFAS No. 133, the majority of these transactions have been designated as "normal" purchases or "normal" sales and are thus not required to be recorded at fair value, but on an accrual basis of accounting.

A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge). Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair-value hedge, are recognized in earnings as offsets to the changes in fair value of the exposure being hedged. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as, a cash-flow hedge are deferred in accumulated other comprehensive income and are recognized in earnings as the hedged transactions occur. Any ineffectiveness is recognized in earnings immediately. On an ongoing basis, the Company assesses the hedge effectiveness of all derivatives that are designated as hedges for accounting purposes in order to determine that each derivative continues to be highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that the derivative is not highly effective as a hedge, hedge accounting will be discontinued prospectively.

Generation enters into contracts to buy and sell energy for trading purposes subject to limits. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Severance Benefits

Exelon accounts for its ongoing severance plans in accordance with SFAS No. 112, "Employer's Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43" (SFAS No. 112) and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and accrues amounts associated with severance benefits that are considered probable and that can be reasonably estimated. See Note 10—Severance Accounting for further discussion of Exelon's accounting for severance benefits.

Retirement Benefits

Exelon's defined benefit pension plans and postretirement welfare benefit plans are accounted for in accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS No. 87), SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS No. 106) and FASB Staff Position (FSP) FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP FAS 106-2), and are disclosed in accordance with SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits—an Amendment of FASB Statements No. 87, 88, and 106" (revised 2003) (SFAS No. 132). See Note 15—Retirement Benefits for further discussion of Exelon's accounting for retirement benefits in accordance with SFAS No. 87 and SFAS No. 106 and disclosures pursuant to SFAS No. 132.

FSP FAS 106-2. Through its postretirement benefit plans, Exelon provides retirees with prescription drug coverage. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Prescription Drug Act) was enacted on December 8, 2003. The Prescription Drug Act introduced a prescription drug benefit under Medicare as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare prescription drug benefit. Management believes the prescription drug benefit provided under Exelon's postretirement benefit plans is at least actuarially equivalent to the Medicare prescription drug benefit. In response to the enactment of the Prescription Drug Act, in May 2004, the FASB issued FSP FAS 106-2, which provided transition guidance for accounting for the effects of the Prescription Drug Act and superseded FSP FAS 106-1, which had been issued in January 2004. FSP FAS 106-1 permitted a plan sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer the accounting for the effects of the Prescription Drug Act. Exelon made the one-time election allowed by FSP FAS 106-1 during the first quarter of 2004.

During the second quarter of 2004, Exelon early adopted the provisions of FSP FAS 106-2, resulting in a remeasurement of its postretirement benefit plans' assets and accumulated postretirement benefit obligations (APBO) as of December 31, 2003. Upon adoption, the effect of the subsidy on benefits attributable to past service was accounted for as an actuarial experience gain, resulting in a decrease of the APBO of approximately \$186 million. The annualized reduction in the net periodic postretirement benefit cost is estimated to be approximately \$33 million compared to the annual cost calculated without considering the effects of the Prescription Drug Act. The effect of the subsidy on the components of net periodic postretirement benefit cost for 2004 included in the consolidated financial statements and Note 15—Retirement Benefits was as follows:

	<u>2004</u>
Amortization of the actuarial experience gain	\$15
Reduction in current period service cost	6
Reduction in interest cost on the APBO	12

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Previously reported historical financial information for the three months ended March 31, 2004 has been adjusted in Note 24—Quarterly Data (Unaudited).

Treasury Stock

Treasury shares are recorded at cost. Any shares of common stock repurchased are held as treasury shares unless cancelled or reissued.

Foreign Currency Translation

The financial statements of Exelon's foreign subsidiaries were prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rates at the end of the periods for the Consolidated Balance Sheets and on weighted-average rates for the periods for the Consolidated Statements of Income. Foreign currency translation adjustments, net of deferred income tax benefits, are reflected as a component of other comprehensive income on the Consolidated Statements of Comprehensive Income and, accordingly, have no effect on net income.

New Accounting Pronouncements

EITF 03-1. In March 2004, the EITF reached a consensus on and the FASB ratified EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired. Exelon adopted the disclosure requirements of EITF 03-1 for investments accounted for under SFAS No. 115 for the year ended December 31, 2003. On September 30, 2004, the FASB issued FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments,'" which delayed the effective date of the application guidance on impairment of securities included within EITF 03-1. The EITF and the FASB are reconsidering the conclusions reached within EITF 03-1.

SFAS No. 151. In November 2004, the FASB issued FASB Statement No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4" (SFAS No. 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs and wasted material or spoilage to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Exelon is assessing the impact SFAS No. 151 will have on its consolidated financial statements.

SFAS No. 123-R. In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123-R). SFAS No. 123-R replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123-R requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Exelon will no longer be permitted to follow the intrinsic value accounting method of APB No. 25, which resulted in no expense being recorded for stock option grants for which the strike price was equal to the fair value of the underlying stock on the date of grant. Exelon has not elected to early adopt SFAS No. 123-R. As a result, SFAS No. 123-R will be effective for Exelon in the third quarter of 2005 and will apply to all of Exelon's outstanding unvested share-based payment awards as of July 1, 2005 and all prospective awards. Exelon is assessing the impact SFAS No. 123-R will have on its consolidated financial statements and which of three transition methods allowed by SFAS No. 123-R will be elected.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued) (Dollars in millions, except per share data unless otherwise noted)

SFAS No. 153. In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, 'Accounting for Nonmonetary Transactions'" (SFAS No. 153). Previously, APB Opinion No. 29 had required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for Exelon in the third quarter of 2005 and earlier application is permitted for nonmonetary asset exchanges occurring after the issuance of SFAS No. 153. The provisions of SFAS No. 153 are applied prospectively. Exelon is assessing the impact SFAS No. 153 will have on its consolidated financial statements:

FSP FAS 109-1 and FSP FAS 109-2. In December 2004, the FASB issued FSP FAS 109-1, "Application of FASB Statement No. 109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (FSP FAS 109-1) and FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provisions within the American Jobs Creation Act of 2004" (FSP FAS 109-2). FSP FAS 109-1 and FSP FAS 109-2 were effective upon issuance. The American Jobs Creation Act of 2004 (Act), signed into law on October 22, 2004, provided, generally, for a tax deduction for domestic manufacturing activities of up to nine percent (when fully phased-in) of the lesser of "qualified production activities income," as defined in the Act, or taxable income. FSP FAS 109-1 clarified that the tax deduction for domestic manufacturing activities under the Act should be accounted for as a special deduction in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). The Act also provided a special limited-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. FSP FAS 109-2 provides a registrant more time to evaluate the Act's impact on the registrant's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. Exelon is assessing the impact, if any, that the Act and these standards may have on its consolidated financial statements in future periods.

Cumulative Effect of Changes in Accounting Principles

EITF 03-16. In March 2004, the EITF reached a consensus on and the FASB ratified EITF Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). The EITF concluded that if investors in a limited liability company have specific ownership accounts, they should follow the guidance prescribed in Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," and EITF Topic No. D-46, "Accounting for Limited Partnership Investments." Otherwise, investors should follow the significant influence model prescribed in Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." EITF 03-16 was effective for Exelon and its subsidiaries during the third quarter of 2004. Exelon recorded a charge of \$9 million (net of an income tax benefit of \$5 million) as a cumulative effect of a change in accounting principle in connection with its adoption of EITF 03-16 as of July 1, 2004. This charge related to certain investments in limited liability partnerships held by Enterprises.

FIN 46-R. See discussion of the adoption of FIN 46-R within the "Variable Interest Entities" discussion above.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

SFAS No. 143. SFAS No. 143 provides accounting guidance for retirement obligations (whether statutory, contractual or as a result of principles of promissory estoppel) associated with tangible long-lived assets. Exelon adopted SFAS No. 143 as of January 1, 2003 and recorded income of \$112 million (net of income taxes) as a cumulative effect of a change in accounting principle in connection with its adoption of this standard in the first quarter of 2003. The components of the cumulative effect of a change in accounting principle, net of income taxes, were as follows:

Generation (net of income taxes of \$52)	\$ 80
Generation's investments in AmerGen and Sithe (net of income taxes of \$18)	28
ComEd (net of income taxes of \$0)	5
Enterprises (net of income taxes of \$(1))	(1)
Total	<u>\$112</u>

The following tables set forth Exelon's net income and basic and diluted earnings per common share for the years ended December 31, 2004, 2003 and 2002, adjusted as if SFAS No. 143, FIN 46-R and EITF 03-16 had been applied during those periods. SFAS No. 143, FIN 46-R and EITF 03-16 had adoption dates of January 1, 2003, March 31, 2004 and July 1, 2004, respectively.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Reported income before cumulative effect of changes in accounting principles	\$1,841	\$ 793	\$1,670
Pro forma earnings effects (net of income taxes):			
EITF 03-16	(1)	—	(6)
FIN 46-R	—	32	—
SFAS No. 143	—	—	27
Pro forma income before cumulative effect of changes in accounting principles	<u>\$1,840</u>	<u>\$ 825</u>	<u>\$1,691</u>
Reported net income	\$1,864	\$ 905	\$1,440
Pro forma earnings effects (net of income taxes):			
EITF 03-16	(1)	—	(6)
FIN 46-R	—	32	—
SFAS No. 143	—	—	27
Reported cumulative effects of changes in accounting principles:			
EITF 03-16	9	—	—
FIN 46-R	(32)	—	—
SFAS No. 143	—	(112)	—
SFAS No. 142	—	—	230
Pro forma net income	<u>\$1,840</u>	<u>\$ 825</u>	<u>\$1,691</u>

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Basic earnings per common share:			
Reported income before cumulative effect of changes in accounting principles . . .	\$2.79	\$1.22	\$2.59
Pro forma income before cumulative effect of changes in accounting principles . . .	\$2.79	\$1.27	\$2.62
Reported net income	\$2.82	\$1.39	\$2.23
Pro forma net income	\$2.79	\$1.27	\$2.62
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Diluted earnings per common share:			
Reported income before cumulative effect of changes in accounting principles	\$2.75	\$1.21	\$2.57
Pro forma income before cumulative effect of changes in accounting principles	\$2.75	\$1.26	\$2.60
Reported net income	\$2.78	\$1.38	\$2.22
Pro forma net income	\$2.75	\$1.26	\$2.60

2. Acquisitions and Dispositions

On December 20, 2004, Exelon entered into an Agreement and Plan of Merger (Merger Agreement) with Public Service Enterprise Group Incorporated (PSEG), a holding company for an electric and gas utility company primarily located and serving customers in New Jersey, whereby PSEG will be merged with and into Exelon (Merger). Under the Merger Agreement, each share of PSEG common stock will be converted into 1.225 shares of Exelon common stock. As of December 31, 2004, PSEG's market capitalization was over \$12 billion. Additionally, PSEG, on a consolidated basis, has approximately \$14 billion of outstanding debt which will become part of Exelon's consolidated debt.

The Merger Agreement contains certain termination rights for both Exelon and PSEG, and further provides that, upon termination of the Merger Agreement under specified circumstances, (i) Exelon may be required to pay PSEG a termination fee of \$400 million plus PSEG's transaction expenses up to \$40 million and (ii) PSEG may be required to pay Exelon a termination fee of \$400 million plus Exelon's transaction expenses up to \$40 million. The Merger Agreement has been unanimously approved by both companies' boards of directors but is contingent upon, among other things, the approval by shareholders of both companies, antitrust clearance and a number of regulatory approvals or reviews by Federal and state energy authorities. The parties have made certain of the regulatory filings to obtain necessary regulatory approvals. It is anticipated that this approval process will be completed and the Merger will close within 12 months to 15 months after the announcement of the Merger Agreement in December 2004.

The Merger will be accounted for as a purchase under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of PSEG will be recorded, as of the completion of the Merger, at their respective fair values and added to those of Exelon. The reported financial condition and results of operations of Exelon after completion of the Merger will reflect PSEG's balances and results after completion of the Merger, but will not be restated retroactively to reflect the historical financial position or results of operations of PSEG.

Exelon has capitalized external costs associated with the Merger since the execution of the Merger Agreement on December 20, 2004. Total capitalized costs as of December 31, 2004 were \$10 million. External costs of \$7 million incurred prior to the execution of the Merger Agreement were expensed.

Acquisition and Disposition of Generation Entities

Sale of Ownership Interest in Boston Generating, LLC. On May 25, 2004, Generation completed the sale, transfer and assignment of ownership of its indirect wholly owned subsidiary Boston

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Generating, which owns the companies that own Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, to a special purpose entity owned by the lenders under Boston Generating's \$1.25 billion credit facility (Boston Generating Credit Facility).

The sale was pursuant to a settlement agreement reached with Boston Generating's lenders on February 23, 2004. The FERC approved the sale of Boston Generating on May 25, 2004. Responsibility for plant operations and power marketing activities were transferred to the lenders' special purpose entity on September 1, 2004.

In connection with the settlement reached on February 23, 2004, Exelon, Generation, the lenders and Raytheon Company (Raytheon), the guarantor of the obligations of the turnkey contractor under the projects' engineering, procurement and construction agreements, entered into a global settlement of all disputes relating to the construction of the Mystic 8 and 9 and Fore River generating facilities.

In connection with the decision to transition out of Boston Generating and the generating units, Exelon recorded during the third quarter of 2003 an impairment charge of long-lived assets pursuant to SFAS No. 144 of \$945 million (\$573 million net of income taxes) in operating expenses within its Consolidated Statements of Income.

Boston Generating was reported in the Generation segment of Exelon's consolidated financial statements prior to its sale. At the date of the sale, Boston Generating had approximately \$1.2 billion in assets, primarily consisting of property, plant and equipment, and approximately \$1.3 billion of liabilities of which approximately \$1.0 billion was debt outstanding under the Boston Generating Credit Facility. As of the date of transfer, these amounts were eliminated from Exelon's Consolidated Balance Sheets. As a result of Boston Generating's liabilities being greater than its assets at the time of the sale, transfer and assignment of ownership, Exelon recorded a gain of \$85 million (\$52 million net of income taxes) in other income and deductions within the Consolidated Statements of Income in the second quarter of 2004. In connection with the sale, Exelon recorded a liability associated with an existing guarantee by its subsidiary Exelon New England Holdings, LLC (Exelon New England) of fuel purchase obligations of Boston Generating. Due to the existence of this guarantee and in accordance with SFAS No. 144 and EITF Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets,' in Determining Whether to Report Discontinued Operations" (EITF 03-13), Generation determined that it had retained risk and continuing involvement associated with the operations of Boston Generating and, as a result, the results of Boston Generating have not been classified as a discontinued operation within Exelon's Consolidated Statements of Income. See Note 20—Commitments and Contingencies for further information regarding the guarantee.

Exelon's Consolidated Statements of Income include the following results related to Boston Generating:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues	\$248	\$ 618	\$39
Operating loss ^(a)	(49)	(954)	(2)
Income (loss) ^(b)	21	(583)	(3)

(a) The operating loss in 2003 included an impairment loss of \$945 million (\$573 million net of income taxes) related to Boston Generating's long-lived assets.

(b) Net income for 2004 included an after-tax gain of \$52 million related to the sale of Boston Generating in the second quarter of 2004.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

See Note 4—Selected Pro Forma and Consolidating Financial Information for the effect of the sale of Boston Generating as if the transaction had occurred on January 1, 2003 and was excluded from Exelon's results from that date.

Sithe. See Note 3—*Sithe* for information regarding Generation's investment in *Sithe* and Note 25—Subsequent Events for information regarding Generation's sale of *Sithe* on January 31, 2005.

Acquisition of Sithe International. On October 13, 2004, Generation acquired a 100% interest in *Sithe International* in exchange for cancellation of a \$92 million note. *Sithe International*, through its subsidiaries, has a 49.5% interest in *Termoeléctria del Golfo (TEG)* and *Termoeléctrica Peñoles (TEP)*, two generating facilities in Mexico that began commercial operation in the second quarter of 2004. Effective January 26, 2005, *Sithe International's* name was changed to *Tamuin International, Inc.*

AmerGen Energy Company, LLC. On December 22, 2003, Generation purchased *British Energy plc's (British Energy)* 50% interest in *AmerGen Energy Company, LLC (AmerGen)*. The resolution of purchase price contingencies related to the valuation of long-lived assets was finalized during the fourth quarter of 2004, reflecting the final purchase price of \$267 million after working capital adjustments.

Prior to the purchase, Generation was a 50% owner of *AmerGen* and had accounted for the investment as an unconsolidated equity method investment. From January 1, 2003 through the date of closing, Generation recorded \$47 million (\$28 million, net of tax) of equity in earnings of unconsolidated affiliates related to its investment in *AmerGen* and recorded \$382 million of purchased power from *AmerGen*. The book value of Generation's investment in *AmerGen* prior to the purchase was \$316 million.

The transaction was accounted for as a step acquisition. As such, upon consolidation, Generation was required to allocate its \$316 million book value to 50% of *AmerGen's* equity book value. The difference between Generation's investment in *AmerGen* and 50% of *AmerGen's* equity book value of approximately \$227 million was primarily due to Generation not recognizing a significant portion of the cumulative effect of the change in accounting principle at *AmerGen* related to the adoption of SFAS No. 143. Generation reduced *AmerGen's* equity book value through the reduction of the book value of *AmerGen's* long-lived assets.

Exelon recorded the acquired assets and liabilities of *AmerGen* (remaining 50%) at fair value as of the date of purchase. The following assets and liabilities, after final purchase accounting adjustments, reflecting the equity basis and fair value adjustments discussed above, of *AmerGen* were recorded within Exelon's Consolidated Balance Sheets as of the date of purchase:

Current assets (including \$36 million of cash acquired)	\$ 116
Property, plant and equipment, including nuclear fuel	111
Nuclear decommissioning trust funds	1,108
Deferred debits and other assets	30
Current liabilities	(140)
Asset retirement obligation	(496)
Deferred credits and other liabilities	(106)
Long-term debt	(40)
Total equity	<u>\$ 583</u>

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
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The assets and liabilities of AmerGen were included in Exelon's Consolidated Balance Sheets as of December 31, 2004 and 2003, and AmerGen's results of operations were included in Exelon's Consolidated Statement of Income for the year ended December 31, 2004.

In connection with the purchase of Unit No. 1 of the Three Mile Island (TMI) facility by AmerGen in 2000, AmerGen entered into an agreement with the seller whereby the seller would receive additional consideration based upon future power purchase prices through 2009. Under the terms of the agreement, approximately \$7 million had been accrued at December 31, 2004, which will be payable to the former owner of the TMI facility in the first quarter of 2005. This payment represents contingent consideration for the original acquisition and has accordingly been reflected as an increase to the long-lived assets associated with the TMI facility, and will be depreciated over the remaining useful life of the facility.

Acquisition of Generating Plants from TXU. On April 25, 2002, Generation acquired two natural-gas generation plants with a total of 2,334 MWs of capacity from TXU Corp. (TXU) for an aggregate purchase price of \$443 million. Substantially the entire purchase price was allocated to property, plant and equipment. The transaction included a tolling agreement that provided for TXU to purchase power from the plants during the months of May through September from 2002 through 2006. In December 2004, TXU and Generation terminated the original tolling agreement and entered into a new agreement whereby TXU agreed to purchase 1,900 MWs of capacity and related energy/ancillary services from Generation through 2006. Upon termination of the original agreement, Generation received a cash payment of \$172 million. The resulting gain was deferred and will be recognized as income over the contractual term of the new agreement.

Disposition of Enterprises Entities

Exelon Thermal Holdings, Inc. On June 30, 2004, Enterprises sold the Chicago businesses of Exelon Thermal Holdings, Inc. (Thermal) for net cash proceeds of \$134 million and expected proceeds of \$2 million from a working capital settlement, resulting in a pre-tax gain of \$45 million. Prior to closing, Enterprises repaid \$37 million of related debt, resulting in prepayment penalties of \$9 million.

On September 29, 2004, Enterprises sold ETT Nevada, Inc., the holding company for its investment in Northwind Aladdin, LLC, for a net cash outflow of \$1 million, resulting in a pre-tax loss of \$3 million.

On October 28, 2004, Northwind Windsor, of which Enterprises owned a 50% interest, sold substantially all of its assets, providing Enterprises with cash proceeds of \$8 million, resulting in a pre-tax gain of \$2 million.

See Assets and Liabilities Held for Sale below for discussion of the classification of the Thermal assets and liabilities as held for sale as of December 31, 2003.

Exelon Services, Inc. During 2004, Enterprises disposed of or wound down all of the operating businesses of Exelon Services, Inc. (Exelon Services), including Exelon Solutions, the mechanical services businesses and the Integrated Technology Group. Total expected proceeds and the net pre-tax gain on sale recorded during 2004 related to these dispositions were \$61 million and \$9 million, respectively. Pre-tax impairment charges of \$5 million and \$14 million related to Exelon Services' tangible assets were recorded in 2004 and 2003, respectively. Exelon Services also recorded a pre-tax

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charge of \$24 million in 2003 to impair its remaining goodwill. As of December 31, 2004, Exelon Services had remaining assets and liabilities of \$74 million and \$22 million, respectively, which primarily consisted of tax assets, affiliate receivables and payables, and sales proceeds to be collected. See Assets and Liabilities Held for Sale below for information regarding the classification of the assets and liabilities of Exelon Services as held for sale as of December 31, 2003.

PECO TelCove. On June 30, 2004, Enterprises sold its investment in PECO TelCove, a communications joint venture, along with certain telecommunications assets, for proceeds of \$49 million. A pre-tax gain of \$9 million was recorded in other income and deductions on Exelon's Consolidated Statements of Income. An impairment charge of \$5 million (before income taxes) related to the telecommunications assets had been recorded in the fourth quarter of 2003.

InfraSource. On September 24, 2003, Enterprises sold the electric construction and services, underground and telecom businesses of InfraSource. Cash proceeds to Enterprises from the sale were approximately \$175 million, net of transaction costs and cash transferred to the buyer upon sale, plus a \$30 million subordinated note receivable maturing in 2011. At the time of closing, the present value of the note receivable was approximately \$12 million. The note was collected in full during the second quarter of 2004, resulting in pre-tax income of \$18 million. In connection with the transaction, Enterprises entered into an agreement that may result in certain payments to InfraSource if the amount of services Exelon purchases from InfraSource during the period from closing through 2006 is below specified thresholds. Due to Exelon's ongoing involvement with InfraSource through this agreement and in accordance with SFAS No. 144 and EITF 03-13, the results of InfraSource have not been classified as a discontinued operation within Exelon's Consolidated Statements of Income.

In connection with the agreement to sell InfraSource, Enterprises recorded an impairment charge during the second quarter of 2003 of approximately \$48 million (before income taxes and minority interest) pursuant to SFAS No. 142 related to the goodwill recorded within the InfraSource reporting unit. Management of Enterprises primarily considered the negotiated sales price and the estimated book value of InfraSource at the time of the closing of the sale in determining the amount of the goodwill impairment charge. In connection with the closing of the sale in the third quarter of 2003, Enterprises recorded a pre-tax gain of \$44 million, primarily due to the book value of InfraSource at the date of closing being lower than estimated in the second quarter of 2003. The net impact of the goodwill impairment in the second quarter and the gain recorded in the third quarter was a pre-tax loss and minority interest of \$4 million for the year ended December 31, 2003. The net impact was recorded as an operating and maintenance expense within the Consolidated Statements of Income.

Sale of Investments. On December 1, 2004, Enterprises sold its limited partnership interest in EnerTech Capital Partners II, L.P. and its limited liability company interests in Kinetic Ventures I, LLC and Kinetic Ventures II, LLC for \$8 million in cash and the assumption by the buyers of approximately \$10 million in unfunded capital commitments. Prior to the sale, in 2004, these investments were written down to their expected sales price, resulting in pre-tax impairment charges totaling \$18 million. As such, there was no net gain or loss recorded associated with the sale.

Sale of Investment in AT&T Wireless. On April 1, 2002, Enterprises sold its 49% interest in AT&T Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for \$285 million in cash. Exelon recorded a pre-tax gain of \$198 million (\$116 million net of income taxes) on the \$84 million investment in other income and deductions on its Consolidated Statements of Income.

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The results of Thermal and Exelon Services have been included in income from continuing operations within Exelon's Consolidated Statements of Income (as opposed to discontinued operations) as the impact on Exelon's consolidated financial statements was not significant.

Investments in Synthetic Fuel-Producing Facilities

Synthetic fuel-producing facilities chemically change coal, including waste and marginal coal, into a fuel used at power plants. Section 29 of the Internal Revenue Code provides that tax credits are available for the production of this synthetic fuel.

In November 2003, Exelon purchased interests in two synthetic fuel-producing facilities. The purchase price for these facilities included a combination of cash, notes payable and contingent consideration dependent upon the production level of the facilities. The notes payable recorded for the purchase of the facilities were \$238 million. Exelon's right to acquire a fixed amount of tax credits generated by the facilities was recorded as an intangible asset which is amortized as the tax credits are earned.

In July 2004, Exelon purchased an interest in a limited partnership that indirectly owns four synthetic fuel-producing facilities. Exelon's purchase price for these facilities included a combination of a note payable and contingent consideration dependent upon the production levels of the facilities. The note payable recorded for the purchase of the facilities was \$22 million. Exelon's right to acquire a fixed amount of tax credits generated by the facilities was recorded as an intangible asset which is amortized as these tax credits are earned.

Private letter rulings have been received that affirm that the process used by the facilities will produce a solid synthetic fuel that qualifies for tax credits under Section 29 of the Internal Revenue Code.

Tax credits generated by the production of synthetic fuel are subject to a phase-out provision that gradually reduces tax credits as the annual average wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. For 2003, the tax credit would have begun to phase out when the annual average wellhead price per barrel of domestic crude oil exceeded \$50.14 and would have been completely phased out when the annual average wellhead price per barrel of domestic crude oil reached \$62.94. The 2004 and 2005 phase-out range will be calculated using inflation rates published in 2005 and 2006, respectively, by the Internal Revenue Service.

If domestic crude oil prices remain high in 2005, the tax credits and net income generated by the investments may be reduced substantially. The intangible asset recorded by Exelon related to its investments in these facilities could become impaired if domestic crude oil prices continue to increase in the future. See Note 9—Intangible Assets for additional information regarding the intangible assets.

Exelon's investments in synthetic fuel-producing facilities increased net income by \$70 million and \$5 million in 2004 and 2003, respectively. The increase in net income is reflected in the Consolidated Statements of Income as a benefit within income taxes, partially offset by charges to operating and maintenance expense, depreciation and amortization expense, interest expense and equity in losses of unconsolidated affiliates. See Note 13—Income Taxes for information regarding the effect of these investments on Exelon's effective income tax rate.

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Investments in Affordable Housing

On October 15, 2004 and November 12, 2004, Exelon sold investments in affordable housing for total proceeds of \$78 million and recognized a net gain on sale of \$4 million before income taxes. Of the total proceeds, \$2 million is being held in escrow pending possible purchase price adjustments.

Assets and Liabilities Held for Sale

There were no assets or liabilities classified as held for sale as of December 31, 2004. The major classes of assets and liabilities classified as held for sale within Exelon's Consolidated Balance Sheet as of December 31, 2003 consisted of the following:

<u>December 31, 2003</u>	<u>Generation</u>	<u>Enterprises</u>	<u>Total</u>
Cash	\$—	\$ 11	\$ 11
Accounts receivable, net	—	59	59
Other current assets	—	24	24
Property, plant and equipment, net	—	86	86
Other long-term assets	36	26	62
Total assets classified as held for sale	<u>\$36</u>	<u>\$206</u>	<u>\$242</u>

<u>December 31, 2003</u>	<u>Generation</u>	<u>Enterprises</u>	<u>Total</u>
Accounts payable, accrued expenses and other current liabilities	\$—	\$ 44	\$ 44
Debt	—	1	1
Asset retirement obligation	—	3	3
Other long-term liabilities	—	13	13
Total liabilities classified as held for sale	<u>\$—</u>	<u>\$ 61</u>	<u>\$ 61</u>

Generation. Generation classified three gas turbines with a book value of \$36 million as held for sale as of December 31, 2003. The turbines were sold during the first quarter of 2004 for proceeds of \$42 million, resulting in a gain of \$6 million. In anticipation of their sale in 2004, these turbines had been classified as other long-term assets as they had not been placed into service.

Enterprises. As of December 31, 2003, the assets and liabilities of certain entities of Thermal and Exelon Services were classified as held for sale. The assets and liabilities of Thermal classified as held for sale were \$120 million and \$18 million, respectively, at December 31, 2003. The assets and liabilities of Exelon Services classified as held for sale were \$86 million and \$43 million, respectively, at December 31, 2003. Enterprises recognized impairment charges totaling \$14 million (before income taxes) under SFAS No. 144 related to the assets of Exelon Services that were classified as held for sale during the year ended December 31, 2003. These assets and liabilities were reported under the Enterprises segment in Note 22—Segment Information. See "Disposition of Enterprises Entities" above for information regarding the disposition of these businesses in 2004.

3. Sithe

Sithe is primarily engaged in the ownership and operation of electric wholesale generating facilities in North America. At December 31, 2004, Sithe operated nine power units with total average net

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capacity of 1,323 MWs. Described below is a series of transactions in 2004 and 2003 involving Generation's investment in Sithe that ultimately resulted in the sale of Generation's ownership interest in Sithe to a third party on January 31, 2005. See Note 25—Subsequent Events for a further discussion of the sale transaction.

Exercise of Call Option and Subsequent Agreement to Sell. On November 25, 2003, Generation, Reservoir Capital Group (Reservoir) and Sithe completed a series of transactions resulting in Generation and Reservoir each indirectly owning a 50% interest in Sithe (Generation owned 49.9% prior to November 25, 2003). See below for further details regarding these 2003 transactions.

Both Generation's and Reservoir's 50% interests in Sithe were subject to put and call options. On September 29, 2004, Generation exercised its call option and entered into an agreement to acquire Reservoir's 50% interest in Sithe for \$97 million. On November 1, 2004, Generation entered into an agreement to sell Sithe to Dynegy Inc. (Dynegy) for \$135 million in cash. On January 31, 2005, Generation completed the closing of the call exercise and the sale of the resulting 100% interest in Sithe. The sale did not include Sithe International, Inc., which was sold to a subsidiary of Generation in a separate transaction described below.

Acquisition of Sithe International, Inc. Sithe International, through its subsidiaries, has 49.5% interests in two Mexican business trusts that own the TEG and TEP power stations, two 230 MW petcoke-fired generating facilities in Tamuín, Mexico that commenced commercial operations in the second quarter of 2004. On October 13, 2004, Sithe transferred all of the shares of Sithe International, Inc. and its subsidiaries to a subsidiary of Generation in exchange for cancellation of a \$92 million note, which is eliminated as part of the consolidation of Sithe. Effective January 26, 2005, Sithe International's name was changed to Tamuin International Inc.

2003 Transactions. On November 25, 2003, Generation, Reservoir and Sithe completed a series of transactions resulting in Generation and Reservoir each indirectly owning a 50% interest in Sithe. Immediately prior to these transactions, Sithe was owned 49.9% by Generation, 35.2% by Apollo Energy, LLC (Apollo), and 14.9% by subsidiaries of Marubeni Corporation (Marubeni).

On November 25, 2003, entities controlled by Reservoir purchased certain Sithe entities holding six U.S. generating facilities, each a qualifying facility under the Public Utility Regulatory Policies Act, in exchange for \$37 million (\$21 million in cash and a \$16 million two-year note); and entities controlled by Marubeni purchased all of Sithe's entities and facilities outside of North America (other than Sithe Energies Australia (SEA) of which it purchased a 49.9% interest on November 24, 2003 and the remaining 50.1% interest on May 27, 2004 for separate consideration) for \$178 million.

Following the sales of the above entities, Generation transferred its wholly owned subsidiary that held the Sithe investment to a newly formed holding company, EXRES SHC, Inc. The subsidiary holding the Sithe investment acquired the remaining Sithe interests from Apollo and Marubeni for \$612 million using proceeds from a \$580 million bridge financing and available cash. Generation sold a 50% interest in the newly formed holding company for \$76 million to an entity controlled by Reservoir on November 25, 2003. On November 26, 2003, Sithe distributed \$580 million of available cash to its parent, which then utilized the distributed funds to repay the bridge financing.

Guarantees. In connection with the 2003 transactions, Generation recorded obligations related to \$39 million of guarantees in accordance with FIN 45. These guarantees were issued to protect

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Reservoir from credit exposure of certain counter-parties through 2015 and other indemnities. In determining the value of the FIN 45 guarantees, Generation utilized probabilistic models to assess the possibilities of future payments under the guarantees. These guarantees were reversed upon the consolidation of Sithe in accordance with FIN 45 as this liability was associated with guarantees for the performance of a consolidated entity. The consolidation of Sithe in accordance with FIN 46-R resulted in Exelon recording income of \$32 million (net of income taxes), which included the reversal of the aforementioned guarantees, as a cumulative effect of a change in accounting principle during the first quarter of 2004.

Accounting Prior to the Consolidation of Sithe on March 31, 2004. Generation had accounted for the investment in Sithe as an unconsolidated equity method investment prior to its consolidation on March 31, 2004 pursuant to FIN 46-R. See Note 1—Significant Accounting Policies for further discussion. In 2003, Generation recorded impairment charges of \$255 million (before income taxes) in other income and deductions within the Consolidated Statements of Income associated with a decline in the fair value of the Sithe investment, which was considered to be other-than-temporary. Generation's management considered various factors in the decision to impair this investment, including management's negotiations to sell its interest in Sithe. The discussions surrounding the sale indicated that the fair value of the Sithe investment was below its book value and, as such, impairment charges were required.

The book value of Generation's investment in Sithe immediately prior to its consolidation on March 31, 2004 was \$49 million. For the year ended December 31, 2004, Exelon recorded \$2 million of equity method losses from Sithe prior to its consolidation. For the year ended December 31, 2003 and 2002, Exelon recorded \$2 million and \$23 million of equity method income, respectively, related to its investment in Sithe.

Consolidation of Sithe as of March 31, 2004. As a result of the 2003 transactions referred to above, the consolidation of Sithe at March 31, 2004 was accounted for as a step acquisition pursuant to purchase accounting policies. Under the provisions of FIN 46-R, the operating results of Sithe were included in Exelon's results of operations beginning April 1, 2004.

The condensed consolidating financial information included in Note 4—Selected Pro Forma and Consolidating Financial Information (Unaudited) presents the financial position of Exelon and Sithe, as well as consolidating entries related primarily to acquisition notes payables and receivables between Exelon and Sithe.

Intangible Assets. Sithe had entered into a tolling arrangement (Tolling Agreement) with Dynegy Power Marketing and its affiliates with respect to Sithe's Independence Station. The Tolling Agreement commenced on July 1, 2001 and runs through 2014. Additionally, Sithe has entered into an energy purchase agreement (Energy Purchase Agreement) with a counterparty relating to the Independence Station, which continues through 2014. As a result of the acquisition accounting described above, values were assigned to the Tolling Agreement and the Energy Purchase Agreement of approximately \$73 million and \$384 million, respectively, which have been recorded as intangible assets on Exelon's Consolidated Balance Sheets in deferred debits and other assets. These amounts were determined based on fair value techniques utilizing the contract terms and various other estimates including forward power prices, discount rates and option pricing models.

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The intangible assets representing the Tolling Agreement and the Energy Purchase Agreement are being amortized on a straight-line basis over the lives of the associated agreements. See Note 9—Intangible Assets for further information regarding Exelon's intangible assets.

Long-Term Debt and Letters of Credit. Substantially all of Sithe's property, plant and equipment and project agreements secure Sithe's outstanding long-term debt, which consists primarily of project debt. During 2003, Sithe entered into an agreement with Exelon and Generation under which Exelon obtained letters of credit to support contractual obligations of Sithe and its subsidiaries. As of December 31, 2004, Exelon had obtained \$61 million of letters of credit in support of Sithe's obligations not including a \$50 million letter of credit that is not guaranteed by Exelon. With the exception of the issuance of letters of credit to support contractual obligations, the creditors of Sithe have no recourse against the general credit of Exelon or Generation.

4. Selected Pro Forma and Consolidating Financial Information (Unaudited)

The following unaudited pro forma financial information gives effect to the acquisition on December 22, 2003 of the remaining 50% interest in AmerGen by Generation and the sale of Boston Generating by Generation on May 25, 2004, in each case, as if the transaction had occurred on January 1, 2003.

<u>2004</u>	<u>Exelon As Reported</u>	<u>Sale of Boston Generating</u>	<u>Eliminating Entries</u>	<u>Pro Forma Exelon</u>
Total operating revenues	\$14,515	\$248	\$—	\$14,267
Operating income (loss)	3,433	(49)	—	3,482
Income before cumulative effect of changes in accounting principles	1,841	21	—	1,820

<u>2003</u>	<u>Exelon As Reported</u>	<u>Acquisition of 50% of AmerGen</u>	<u>Sale of Boston Generating</u>	<u>Eliminating Entries^(a)</u>	<u>Pro Forma Exelon</u>
Total operating revenues	\$15,812	\$623	\$618	\$(382)	\$15,435
Operating income (loss)	2,277	99	(954)	—	3,330
Income (loss) before cumulative effect of changes in accounting principles	793	89	(583)	(47)	1,418

(a) Represents the elimination of intercompany revenues at AmerGen and equity in earnings from AmerGen in 2003.

The above unaudited pro-forma financial information should not be relied upon as being indicative of the historical results that would have been obtained if the transactions had actually occurred in prior periods nor of the results that might be obtained in the future.

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Condensed Consolidating Balance Sheet at December 31, 2004

The following condensed consolidating financial information presents the financial position of Exelon and Sithe, as well as eliminating entries, related primarily to acquisition notes payable and receivables between Generation and Sithe.

December 31, 2004	Pro Forma Exelon	Sithe	Eliminating Entries	Exelon As Reported
Assets				
Current assets	\$ 3,951	\$ 336	\$(361)	\$ 3,926
Property, plant and equipment, net	21,212	270	—	21,482
Other noncurrent assets	16,643	750	(31)	17,362
Total assets	<u>\$41,806</u>	<u>\$1,356</u>	<u>\$(392)</u>	<u>\$42,770</u>
Liabilities and shareholders' equity				
Current liabilities	\$ 4,920	\$ 323	\$(361)	\$ 4,882
Long-term debt	11,363	785	—	12,148
Other long-term liabilities ^(a)	16,013	181	36	16,230
Shareholders' equity ^(b)	9,510	67	(67)	9,510
Total liabilities and shareholders' equity	<u>\$41,806</u>	<u>\$1,356</u>	<u>\$(392)</u>	<u>\$42,770</u>

(a) Includes minority interest in consolidated subsidiaries.

(b) Includes preferred securities of subsidiaries.

5. Regulatory Issues

Energy Delivery

PJM Integration. On June 2, 2003, ComEd began receiving electric transmission reservation services from PJM Interconnection, LLC (PJM) and transferred control of ComEd's Open Access Same Time Information System to PJM. On April 27, 2004, the FERC issued its order approving ComEd's application to complete its integration into PJM, subject to certain stipulations, including a provision to hold certain utilities in Michigan and Wisconsin harmless from the associated impacts for ComEd to join PJM. ComEd agreed to these stipulations and fully integrated its transmission facilities into PJM on May 1, 2004. In the fourth quarter of 2004, ComEd entered into settlement agreements with all such Michigan and Wisconsin utilities requiring a total payment of approximately \$4 million by ComEd. FERC has approved these agreements and payment is expected to be made in the first quarter of 2005.

Through and Out Rates. In November 2004, the FERC issued two orders authorizing ComEd and PECO to recover from various entities revenue representing amounts ComEd and PECO will lose as a result of the elimination of through and out (T&O) charges, for energy flowing across ComEd's and PECO's transmission systems, that were terminated pursuant to the FERC orders effective December 1, 2004. The collection of this revenue will be over a transitional period of December 1, 2004 through March 31, 2006. Several parties have sought rehearing of the FERC orders and there likely will be appeals filed in the matter after the rehearing order is issued. During 2004 prior to the termination of T&O charges, ComEd and PECO collected net T&O charges of approximately \$50 million and \$3 million, respectively. As a result of this proceeding, ComEd may see reduced net collections, and PECO may be come a net payer of these charges. The ultimate outcome of this proceeding is uncertain and may have a material adverse effect on ComEd's and PECO's financial condition, results of operations or cash flows.

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Delivery Service Rates. On March 3, 2003, ComEd entered into, and the ICC subsequently entered orders to implement, an agreement (Agreement) with various Illinois retail market participants and other interested parties that settled, among other things, delivery service rates and the market value index proceeding and facilitates competitive service declarations for large-load customers and an extension of ComEd's PPA with Generation. The effect of the Agreement is to lower competitive transition charge (CTC) collections that ComEd receives from customers who take electricity from an alternative electric supplier or under the purchase power option (PPO) through 2006. The Agreement also allows customers to lock in current CTCs for multiple years. In 2004 and 2003, ComEd collected \$169 million and \$304 million in CTC revenues, respectively.

In 2003, ComEd recorded a charge to earnings associated with the required funding of specified programs and initiatives associated with the Agreement of \$51 million (before income taxes) on a present value basis. This amount was partially offset by the reversal of a \$12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding and a credit of \$10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The charge of \$51 million and the credit of \$10 million were recorded in operating and maintenance expense and the reversal of the \$12 million reserve was recorded in other, net within Exelon's Consolidated Statements of Income. The net charge for these items was \$29 million (before income taxes). In accordance with the Agreement, ComEd made payments of \$10 million and \$23 million during 2004 and 2003, respectively.

Customer Choice. All ComEd's retail customers are eligible to choose an alternative electric supplier and most non-residential customers may also buy electricity from ComEd at market-based prices under the PPO. No alternative electric supplier has approval from the ICC, and no electric utilities have chosen, to serve ComEd's residential customers. As of December 31, 2004, approximately 22,100 non-residential customers, or 35% of ComEd's annual retail kilowatthour sales, had elected either the PPO or an alternative electric supplier. Customers who receive energy from an alternative supplier continue to pay a delivery charge.

All PECO customers may choose to purchase energy from an alternative electric supplier. As of December 31, 2004, approximately 101,500 customers, representing approximately 8% of PECO's annual kilowatthour sales, had elected to purchase their electric energy from an alternative electric supplier. Customers who receive energy from an alternative electric supplier continue to pay delivery charges and CTCs.

Competitive Service Declarations. On November 14, 2002, the ICC allowed ComEd, by operation of law, to revise its provider of last resort obligation to be the back-up energy supplier at market-based rates for certain customers with energy demands of at least three MWs. About 370 of ComEd's largest energy customers are affected, representing an aggregate supply obligation or load of approximately 2,500 MWs. These customers will not have a right to take bundled service after June 2006 or to return to bundled rates if they choose an alternative supplier prior to June 2006.

On March 28, 2003, the ICC approved changes to ComEd's real-time pricing tariff for non-residential customers, including those with energy demands of at least three MWs, who choose hourly energy supply for their electric power and energy. The ICC orders were affirmed on appeal.

Exelon cannot predict the long-term impact of customer choice and customer service declarations on its results of operations.

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Rate Reductions and Return on Common Equity Threshold. The Illinois restructuring legislation, as amended, required a 15% residential base rate reduction effective August 1, 1998 and an additional 5% residential base rate reduction effective October 1, 2001. In addition, a base rate freeze, reflecting the residential base rate reduction, is in effect through January 1, 2007. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois legislation, if the two-year average of the earned return on common equity of a utility through December 31, 2006 exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on a two-year average of the Monthly Treasury Bond Long-Term Average Rates (20 years and above) plus 8.5% in the years 2000 through 2006. Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with GAAP and reflect the amortization of regulatory assets. Under Illinois statute, any impairment of goodwill would have no impact on the determination of the cap on ComEd's allowed equity return during the transition period. As a result of the Illinois legislation, at December 31, 2004, ComEd had a regulatory asset related to recoverable transition costs with an unamortized balance of \$87 million that it expects to fully recover and amortize by the end of 2006. Consistent with the provisions of the Illinois legislation, regulatory assets may be recovered in amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold. ComEd has not triggered the earnings sharing provision through 2004.

Rate limitations. Pursuant to a settlement agreement related to the merger of Exelon, Unicom Corporation and PECO on October 20, 2000 (PECO/Unicom Merger) with the PUC, PECO is subject to agreed-upon electric service rate reductions of \$200 million, in aggregate, for the period January 1, 2002 through December 31, 2005, including \$40 million in each of 2004 and 2005. As required by the 1998 electric restructuring settlement and as modified by the PECO / Unicom Merger-related settlement agreement, PECO is subject to rate caps (subject to limited exceptions for significant increases in Federal or state income taxes or other significant changes in law or regulation that do not allow PECO to earn a fair rate of return) on its transmission and distribution rates through December 31, 2006, and on its energy rates through December 31, 2010.

Nuclear Decommissioning Costs. In connection with the transfer of ComEd's nuclear generating stations to Generation, the ICC permitted ComEd to recover \$73 million per year from retail customers for decommissioning for the years 2001 through 2004 and, depending upon the portion of the output from those stations taken by ComEd, up to \$73 million annually in 2005 and 2006. Because ComEd is not expected to take all of the output of these stations, actual collections are expected to be less than \$73 million annually in 2005 and 2006. Subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. Any surplus funds after a nuclear station is decommissioned must be refunded to ComEd's customers. The amounts collected by ComEd from retail customers are remitted to Generation. See Note 14—Nuclear Decommissioning and Spent Fuel Storage.

Effective January 1, 2004, the PUC approved an adjustment to PECO's nuclear decommissioning cost adjustment clause permitting PECO to recover an additional \$3.6 million annually, or \$33 million compared to \$29 million previously. The amounts recovered by PECO are remitted to Generation upon collection.

Open Access Transmission Tariff. On November 10, 2003, the FERC issued an order allowing ComEd to put into effect, subject to refund and rehearing, new transmission rates designed to reflect nearly \$500 million of infrastructure investments made since 1998; however, because of the Illinois retail rate freeze and the method for calculating CTCs, the increase is not expected to significantly

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increase operating revenues until December 31, 2006. During the third quarter of 2004, a settlement agreement was reached which was approved by the FERC during the fourth quarter of 2004, which established new rates that became effective May 1, 2004.

Generation

Service Life Extension. Upon the December 2003 acquisition of the remaining 50% interest in AmerGen, Generation changed its accounting estimates related to the depreciation of certain AmerGen generating facilities to conform with Generation's depreciation policies. The estimated service lives were extended by 20 years for the three AmerGen stations. These changes were based on engineering and economic feasibility analyses performed by Generation. The service life extensions are subject to approval by the Nuclear Regulatory Commission (NRC) of renewals of the existing NRC operating licenses. Generation has not applied for license renewals at the AmerGen facilities, but has announced its plan to file a renewal request in 2005 for the Oyster Creek Nuclear Generating Station (Oyster Creek), and is planning on filing for license renewals for TMI Unit 1 and the Clinton Nuclear Power Station (Clinton) on a timeline consistent and integrated with the other planned license renewal filings for the Generation nuclear fleet.

License Renewals. In December 2004, the NRC issued an order that will permit Oyster Creek to operate beyond its license expiration in April 2009 if the NRC has not completed reviewing the application for renewal. The application for Oyster Creek's license renewal is anticipated to be filed by August 2005 in order to comply with this agreement. On October 28, 2004, the NRC approved 20-year renewals of the operating licenses for Generation's Dresden and Quad Cities generating stations. The licenses for Dresden Unit 2, Dresden Unit 3 and Quad Cities Units 1 and 2 were renewed to 2029, 2031 and 2032, respectively. On May 7, 2003, the operating licenses for Peach Bottom Unit 2 and Peach Bottom Unit 3 were renewed to 2033 and 2034, respectively. Depreciation provisions are based on the estimated useful lives of the stations, which assumes the renewal of these licenses for all nuclear generating stations. As a result, these license renewals had no impact on the Consolidated Statements of Income.

6. Accounts Receivable

Customer accounts receivable at December 31, 2004 and 2003 included unbilled revenues related to unread meters for Energy Delivery and Exelon Energy Company customers of \$482 million and \$452 million, respectively. Also included in customer accounts receivable was \$385 million and \$366 million at December 31, 2004 and 2003, respectively, related to Generation's unbilled revenues for amounts of energy delivered to customers in the month of December. The allowance for uncollectible accounts at December 31, 2004 and 2003 was \$93 million and \$110 million, respectively.

PECO 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 \$225 million of designated accounts receivable until November 2005. At December 31, 2004, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$179 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," (SFAS No. 140) and a \$46 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable and reflected on the consolidated balance sheet as long-term debt due within one year. At December 31, 2003, PECO had sold a \$225 million interest in accounts receivable,

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consisting of a \$176 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 140 and a \$49 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable (see Note 12—Long-Term Debt). PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the \$225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2004 and 2003, PECO met this requirement and was not required to make any cash deposits.

7. Property, Plant, and Equipment

A summary of property, plant and equipment by asset category as of December 31, 2004 and 2003 is as follows:

<u>Asset Category</u>	<u>2004</u>	<u>2003</u>
Electric—transmission and distribution	\$13,479	\$12,644
Electric—generation	7,125	7,968
Gas—transmission and distribution	1,436	1,381
Common	501	492
Nuclear fuel	2,926	2,568
Construction work in progress	593	862
Asset retirement cost	1,024	203
Other property, plant and equipment ^(a)	1,627	1,549
Total property, plant and equipment	28,711	27,667
Less accumulated depreciation (including accumulated amortization of nuclear fuel of \$1,976 and \$1,596 as of December 31, 2004 and 2003, respectively)	7,229	7,037
Property, plant and equipment, net	<u>\$21,482</u>	<u>\$20,630</u>

(a) Includes buildings under capital lease with a net carrying value of \$43 million and \$46 million at December 31, 2004 and 2003, respectively. The original cost basis of the buildings was \$53 million and total accumulated amortization was \$10 million and \$7 million at December 31, 2004 and 2003, respectively.

Energy Delivery's depreciation expense, which is included in cost of service for rate purposes, includes the estimated cost of dismantling and removing plant from service upon retirement. Beginning in 2003, in accordance with new interpretations of regulatory accounting practice, collections for future removal costs are recorded as a regulatory liability. For more information, see Note 21—Supplemental Financial Information.

Effective July 1, 2002, ComEd decreased its depreciation rates based on a new depreciation study reflecting its significant construction program in recent years, changes in and development of new technologies, and changes in estimated plant service lives since the last depreciation study. The annualized reduction in depreciation expense was \$96 million.

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8. Jointly Owned Electric Utility Plant

Exelon's undivided ownership interests in jointly owned electric plant at December 31, 2004 and 2003 were as follows:

	Nuclear generation			Fossil fuel generation			Transmission/ Other
	Quad Cities	Peach Bottom	Salem ^(a)	Keystone PSEG Reliant	Conemaugh Reliant	Wyman FP&L	
Operator	Generation	Generation	Nuclear	Reliant	Reliant	FP&L	(b,c)
Ownership interest	75.00%	50.00%	42.59%	20.99%	20.72%	5.89%	(b,c)
Exelon's share at							
December 31, 2004:							
Plant	\$ 287	\$ 438	\$ 127	\$ 167	\$ 212	\$ 2	\$ 61
Accumulated depreciation	54	231	33	102	133	—	27
Construction work in progress	39	16	81	5	1	—	—
Exelon's share at							
December 31, 2003:							
Plant	\$ 191	\$ 453	\$ 106	\$ 168	\$ 210	\$ 2	\$ 61
Accumulated depreciation	18	239	24	106	138	—	26
Construction work in progress	40	1	48	2	1	—	—

- (a) Generation also owns a proportionate share in the fossil fuel combustion turbine, which is fully depreciated. The gross book value was \$3 million at December 31, 2004 and 2003.
- (b) PECO has a 22.00% ownership of 127 miles of 500,000 voltage lines located in Pennsylvania and a 42.55% ownership of 151 miles of 500,000 voltage lines located in Delaware and New Jersey.
- (c) Generation has a 44.24% ownership interest in Merrill Creek Reservoir located in New Jersey with a book value of \$1 million at December 31, 2004 and 2003.

Exelon's undivided ownership interests are financed with Exelon funds and all operations are accounted for as if such participating interests were wholly owned facilities. Exelon's share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on the Consolidated Statements of Income.

9. Intangible Assets

Goodwill

Adoption of SFAS No. 142. Effective January 1, 2002, Exelon adopted SFAS No. 142. Pursuant to SFAS No. 142, goodwill is no longer amortized; however, in addition to an initial assessment, goodwill is subject to an assessment for impairment at least annually, or more frequently, if events or circumstances indicate that goodwill might be impaired. The impairment assessment is performed using a two-step, fair-value based test. The first step compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the estimated fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss is reported as a reduction to goodwill and a charge to operating expense.

As of December 31, 2001, Exelon's Consolidated Balance Sheets reflected approximately \$5.3 billion in goodwill net of accumulated amortization, including \$4.9 billion of goodwill, net of accumulated

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amortization, related to the PECO / Unicom Merger recorded on ComEd's Consolidated Balance Sheets, with the remainder related to Enterprises. The first step of the transitional impairment analysis indicated that Energy Delivery's goodwill was not impaired but that an impairment did exist with respect to goodwill recorded in Enterprises' reporting units. The second step of the analysis, which compared the fair value of each of Enterprises' reporting units' goodwill to the carrying value at December 31, 2001, indicated a total goodwill impairment of \$357 million (\$243 million, net of income taxes and minority interest). The fair value of Enterprises' reporting units was determined using discounted cash flow models reflecting the expected range of future cash flow outcomes related to each of Enterprises' reporting units over the life of the investment. These cash flows were discounted to 2002 using a risk-adjusted discount rate.

The components of the net transitional impairment loss recognized in the first quarter of 2002 as a cumulative effect of a change in accounting principle were as follows:

Enterprises goodwill impairment (net of income taxes of (\$95))	\$ (243)
Exelon Energy's goodwill impairment (net of income taxes of (\$8))	(11)
Minority interest (net of income taxes of \$4)	11
Elimination of AmerGen negative goodwill (net of income taxes of \$9)	<u>13</u>
Total cumulative effect of a change in accounting principle	<u><u>\$ (230)</u></u>

Accounting Methodology Under SFAS No. 142. The changes in the carrying amount of goodwill by reportable segment (see Note 22—Segment Information) for the years ended December 31, 2003 and 2004 were as follows:

	<u>Energy Delivery</u>	<u>Enterprises</u>	<u>Total</u>
Balances as of January 1, 2003	\$4,916	\$ 76	\$4,992
Impairment losses	—	(72)	(72)
Adoption of SFAS No. 143: (a)			
Reduction of asset retirement obligation	(210)	—	(210)
Cumulative effect of change in accounting principle	5	—	5
Resolution of certain tax matters	8	—	8
Other	—	(4)	(4)
Balances as of January 1, 2004	<u>4,719</u>	—	4,719
Resolution of certain tax matters	(9)	—	(9)
PECO / Unicom Merger severance adjustments	(5)	—	(5)
Balances as of December 31, 2004	<u><u>\$4,705</u></u>	<u><u>\$—</u></u>	<u><u>\$4,705</u></u>

(a) See Note 14—Nuclear Decommissioning and Spent Fuel Storage.

2004 Annual Goodwill Impairment Assessment. The annual goodwill impairment assessment was performed as of November 1, 2004. The first step of the annual impairment analysis, comparing the fair value of a reporting unit to its carrying value, including goodwill, indicated no impairment of goodwill. In its assessment to estimate the fair value of the Energy Delivery reporting unit, Exelon used a probability-weighted, discounted cash flow model with multiple scenarios. The determination of the fair value is dependent on many sensitive, interrelated and uncertain variables including changing interest rates, utility sector market performance, capital structure, market prices for power, post-2006 rate regulatory structures, operating and capital expenditure requirements and other factors.

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Changes from the assumptions used in the impairment review could possibly result in a future impairment loss of Energy Delivery's goodwill, which could be material. Illinois legislation provides that reductions to ComEd's common equity resulting from goodwill impairments will have no impact on the determination of the rate cap on ComEd's allowed equity return during the electricity industry restructuring transition period through 2006. See Note—5 Regulatory Issues for further discussion of ComEd's earnings provisions.

2003 Goodwill Impairment Assessments. The 2003 annual goodwill impairment assessment was performed as of November 1, 2003, and Exelon determined that goodwill was not impaired at Energy Delivery but that the remaining goodwill at Exelon Services was fully impaired. Exelon recorded a pre-tax charge of \$24 million within operating and maintenance expenses during 2003 to fully impair the goodwill that had been recorded within the Exelon Services reporting unit of the Enterprises segment.

In connection with the sale of InfraSource in 2003, Exelon recorded a goodwill impairment charge of approximately \$48 million pre-tax to fully impair the goodwill recorded within the InfraSource reporting unit of the Enterprises segment. Management of Exelon primarily considered the negotiated sales price of InfraSource in determining the amount of the goodwill impairment charge.

Other Intangible Assets

Other Intangible Assets. Exelon's other intangible assets, included in deferred debits and other assets consisted of the following:

	December 31, 2004			December 31, 2003		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortized intangible assets:						
Energy purchase agreement ^(a)	\$384	\$(27)	\$357	\$—	\$—	\$—
Tolling agreement ^(a)	73	(5)	68	—	—	—
Synthetic fuel investments ^(b)	264	(56)	208	241	(4)	237
Other	6	(6)	—	6	—	6
Total amortized intangible assets	<u>727</u>	<u>(94)</u>	<u>633</u>	<u>247</u>	<u>(4)</u>	<u>243</u>
Other intangible assets:						
Intangible pension asset	171	—	171	186	—	186
Total	<u>\$898</u>	<u>\$(94)</u>	<u>\$804</u>	<u>\$433</u>	<u>\$ (4)</u>	<u>\$429</u>

(a) See Note 3 – Sithe and Note 25 – Subsequent Events for a description of Sithe's intangible assets that are reflected in Exelon's balance sheet at December 31, 2004 and a description of the sale of Sithe that was completed on January 31, 2005.

(b) See Note 2 – Acquisitions and Dispositions for a description of Exelon's right to acquire tax credits through investments in synthetic fuel-producing facilities.

Amortization expense related to amortized intangible assets was \$90 million in 2004, of which \$38 million was reflected as a reduction in revenues. Of the \$38 million, \$32 million was attributable to the energy purchase agreement and the tolling agreement, both of which relate to Generation's consolidation of Sithe. Amortization expense was not significant in 2003.

In 2004, Generation entered into an agreement to sell its ownership interest in Sithe, which was completed on January 31, 2005 and will result in the elimination of the intangible assets related to

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Sithe's energy purchase agreement and tolling agreement from the Consolidated Balance Sheets in future periods. See Note 25—Subsequent Events for further information regarding this sale. Amortization expense related to intangible assets is expected to be in the range of \$100 million to \$120 million annually from 2005 through 2007 and approximately \$50 million in 2008 and 2009. This estimate includes amortization related to Sithe's intangible assets of \$43 million annually through 2009, which will not be incurred as a result of the sale of Sithe. The remaining amortization expense relates to Exelon's investments in synthetic fuel-producing facilities.

10. Severance Accounting

Exelon provides severance and health and welfare benefits to terminated employees pursuant to pre-existing severance plans primarily based upon each individual employee's years of service with Exelon and compensation level.

During the years ended December 31, 2004 and 2003, Exelon identified approximately 260 and 1,580 positions, respectively, for elimination. As of December 31, 2004, approximately 380 of the identified positions had not been eliminated. Exelon recorded charges for salary continuance severance of \$32 million and \$135 million (before income taxes) during 2004 and 2003, respectively, which represented salary continuance costs that were probable and could be reasonably estimated as of the end of the year. During 2004 and 2003, Exelon recorded charges of \$16 million and \$48 million (before income taxes), respectively, associated with special health and welfare severance benefits. Additionally, Exelon incurred curtailment and settlement costs in 2004 and 2003 associated with its pension and postretirement benefit plans of \$24 million and \$80 million (before income taxes), respectively, as a result of personnel reductions. In total, Exelon recorded charges of \$56 million and \$258 million (before income taxes) in 2004 and 2003, respectively. See Note 15—Retirement Benefits for a description of the curtailment charges related to the pension and postretirement benefit plans.

Exelon based its estimate of the number of positions to be eliminated on management's current plans and its ability to determine the appropriate staffing levels to effectively operate the businesses. Exelon may incur further severance costs if additional positions are identified for elimination. These costs will be recorded in the period in which the costs can be reasonably estimated.

The following table details, by segment, Exelon's total salary continuance severance costs, recorded as an operating and maintenance expense, for the years ended December 31, 2004, 2003 and 2002:

<u>Salary continuance severance charges</u>	<u>Energy Delivery</u>	<u>Generation</u>	<u>Enterprises</u>	<u>Corporate and Intersegment Eliminations</u>	<u>Consolidated</u>
Expenses recorded—2004 (a)	\$ 13	\$ 2	\$ 2	\$15	\$ 32
Expenses recorded—2003 (a)	77	38	9	11	135
Expenses recorded—2002 (b)	—	2	(1)	7	8

- (a) Severance expense in 2004 and 2003 reflects severance costs associated with The Exelon Way, revised estimates to reflect specific individuals instead of positions previously identified under The Exelon Way and other severance costs incurred in the normal course of business.
- (b) Severance expense in 2002 generally represents severance activity associated with the PECO / Unicom Merger and in the normal course of business.

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The following table provides a roll forward of Exelon's salary continuance severance obligation from January 1, 2003 through December 31, 2004.

<u>Salary continuance severance obligation</u>	
Balance as of January 1, 2003	\$ 39
Severance charges recorded	135
Cash payments	(39)
Other adjustments	4
Balance as of January 1, 2004	139
Severance charges recorded	32
Cash payments	(87)
Other adjustments	(15)
Balance as of December 31, 2004	<u>\$ 69</u>

11. Short-Term Debt

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Average borrowings	\$ 149	\$ 144	\$ 337
Maximum borrowings outstanding	622	1,288	783
Average interest rates, computed on a daily basis	1.37%	1.25%	1.9%
Average interest rates, at December 31	2.43%	1.08%	1.88%

At December 31, 2003, Exelon, along with ComEd, PECO and Generation, participated with a group of banks in a \$750 million 364-day unsecured revolving credit agreement and a \$750 million three-year unsecured revolving credit agreement. On July 16, 2004, the \$750 million 364-day facility was replaced with a \$1 billion unsecured revolving facility maturing on July 16, 2009, and the \$750 million three-year facility was reduced to \$500 million maturing on October 31, 2006. Both revolving credit agreements are used principally to support the commercial paper programs at Exelon, ComEd, PECO and Generation and to issue letters of credit.

At December 31, 2004, Exelon, ComEd, PECO and Generation had the following sublimits and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

<u>Borrower</u>	<u>Bank Sublimit</u> ^(a)	<u>Available Capacity</u> ^(b)	<u>Outstanding Commercial Paper</u>
Exelon	\$700	\$685	\$490
ComEd	100	74	—
PECO	100	100	—
Generation	600	444	—

(a) Sublimits under the credit agreements can change upon written notification to the bank group.

(b) Available capacity represents the bank sublimit net of outstanding letters of credit. The amount of commercial paper outstanding does not reduce the available capacity under the credit facilities.

Interest rates on advances under the credit facilities are based on either prime or the London Interbank Offering Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the

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total outstanding amounts under the agreement at the time of borrowing. The maximum LIBOR adder is 170 basis points.

The credit agreements require Exelon, ComEd, PECO and Generation to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, revenues from Sithe and interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the twelve-month period ended December 31, 2004:

	<u>Exelon</u>	<u>ComEd</u>	<u>PECO</u>	<u>Generation</u>
Credit agreement threshold	2.65 to 1	2.25 to 1	2.25 to 1	3.25 to 1

At December 31, 2004, Exelon, ComEd, PECO and Generation were in compliance with the foregoing thresholds.

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12. Long-Term Debt

	Rates	Maturity Date	December 31,	
			2004	2003
Long-term debt				
First Mortgage Bonds (a) (b):				
Fixed rates	3.50%-9.875%	2005-2033	\$3,510	\$ 4,312
Floating rates	1.70%-1.95%	2012-2020	406	406
Notes payable and other (c)	5.35%-9.20%	2005-2020	2,411	2,943
Boston Generating Credit Facility (d)	—	—	—	1,037
Pollution control notes:				
Fixed rates	—	—	—	157
Floating rates	1.71%-2.04%	2016-2034	520	363
Notes payable—accounts receivable agreement	2.50%	2005	46	49
Sinking fund debentures	3.875%-4.75%	2005-2011	12	17
Sithe long-term debt (e)				
Non-recourse project debt				
Independence	8.50%-9.00%	2007-2013	499	—
Batavia	18.00%	2007	1	—
Subordinated debt	7.00%	2034	419	—
Total long-term debt (f)			<u>7,824</u>	<u>9,284</u>
Unamortized debt discount and premium, net			(114)	(43)
Fair-value hedge carrying value adjustment, net			9	33
Long-term debt due within one year			(427)	(1,385)
Long-term debt			<u>\$7,292</u>	<u>\$ 7,889</u>
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transition Trust (g, h)				
Payable to ComEd Transitional Funding Trust	5.44%-5.74%	2005-2008	\$1,341	\$ 1,676
Payable to PETT	2.98%-7.65%	2005-2010	3,456	3,849
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transition Trust			<u>4,797</u>	<u>5,525</u>
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transition Trust due within one year			(486)	(470)
Total long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transition Trust			<u>\$4,311</u>	<u>\$ 5,055</u>
Long-term debt to other financing trusts (g, h)				
Subordinated debentures to ComEd Financing II	8.50%	2027	155	155
Subordinated debentures to ComEd Financing III	6.35%	2033	206	206
Subordinated debentures to PECO Trust III	7.38%	2028	81	81
Subordinated debentures to PECO Trust IV	5.75%	2033	103	103
Total long-term debt to other financing trusts			<u>\$ 545</u>	<u>\$ 545</u>

(a) Utility plant of ComEd and PECO is subject to the liens of their respective mortgage indentures.

(b) Includes first mortgage bonds issued under the ComEd and PECO mortgage indentures securing pollution control bonds and notes.

(c) Includes capital lease obligations of \$50 million at December 31, 2004 and December 31, 2003. Lease payments of \$3 million, \$3 million, \$2 million, \$2 million and \$40 million will be made in 2005, 2006, 2007, 2008, and thereafter, respectively.

(d) Approximately \$1.0 billion of debt was outstanding under the non-recourse Boston Generating Credit Facility at December 31, 2003, all of which was reflected in the Consolidated Balance Sheet of Exelon as a current liability due to certain events of default under the Boston Generating Credit Facility. The outstanding debt under the Boston Generating Credit Facility was

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eliminated from the financial statements of Exelon upon the sale of Generation's ownership interest in Boston Generating in May 2004. See Note 2 – Acquisitions and Dispositions for additional information regarding the sale.

- (e) In addition to the stated interest rate, an additional 1.97% and 0.99% of interest on the carrying amount of the secured bonds payable is being credited due to debt premiums and 1.63% of interest on the carrying amount of the subordinated debt is being incurred due to the debt discount recorded at the time of the purchase. There is \$100 million of unamortized debt discount associated with Sithe long-term debt. These amounts represent obligations of Sithe and will be removed from Exelon's Consolidated Balance Sheet following Generation's sale of Sithe, which was completed on January 31, 2005. See Note 25—Subsequent Events for additional information.
- (f) Long-term debt maturities in the periods 2005 through 2009 and thereafter are as follows:

2005	\$ 427
2006	446
2007	271
2008	942
2009	85
Thereafter	<u>5,653</u>
Total	<u>\$7,824</u>

Included in the table above are maturities of Sithe's debt of \$34, \$38, \$40, \$44, \$57 and \$706 in 2005, 2006, 2007, 2008, 2009 and thereafter, respectively. In connection with Generation's sale of Sithe on January 31, 2005, Generation is no longer obligated to fulfill these debt maturities, and the related obligations will be removed from the Consolidated Balance Sheets. See Note 25 – Subsequent Events for a further discussion of Generation's the sale of Sithe.

- (g) Effective July 1, 2003, PECO Trust IV, a financing subsidiary created in May 2003, was deconsolidated from the financial statements in conjunction with the adoption of FIN 46. Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Transitional Funding Trust, PECO Trust III, and PETT were deconsolidated from the financial statements in conjunction with the adoption of FIN 46-R. Amounts owed to these financing trusts are recorded as debt to financing trusts within the Consolidated Balance Sheets.
- (h) Long-term debt to financing trusts maturities in the periods 2005 through 2009 and thereafter are as follows:

2005	\$ 486
2006	860
2007	980
2008	965
2009	700
Thereafter	<u>1,351</u>
Total	<u>\$5,342</u>

Issuances of Long-Term Debt. The following long-term debt was issued during 2004:

<u>Company</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount</u>
PECO	First Mortgage Bonds	5.90%	May 1, 2034	\$ 75
Generation	Pollution Control Revenue Bonds ^(a)	Variable	April 1, 2021	51
Generation	Pollution Control Revenue Bonds ^(a)	Variable	October 1, 2030	92
Generation	Pollution Control Revenue Bonds ^(a)	Variable	October 1, 2034	14
Exelon	Note ^(b)	6.00%	January 15, 2008	22
Total issuances				<u>\$254</u>

- (a) The proceeds from the issuances were used to redeem pollution control revenue bonds of PECO.
- (b) Represents a non-cash issuance for investments in synthetic fuel-producing facilities. See Note 2 – Acquisitions and Dispositions for additional information regarding these investments.

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Debt Retirements and Redemptions. The following debt was retired, through tender, open market purchases, optional redemption or payment at maturity, during 2004:

Company	Type	Interest Rate	Maturity	Amount
ComEd	Medium Term Notes	9.200%	October 15, 2004	\$ 56
ComEd	Notes	6.400%	October 15, 2005	128
ComEd	Notes	6.950%	July 15, 2018	85
ComEd	Notes	7.375%	January 15, 2004	150
ComEd	Notes	7.625%	January 15, 2007	5
ComEd	Pollution Control Revenue Bonds	5.300%	January 15, 2004	26
ComEd	Pollution Control Revenue Bonds	5.700%	January 15, 2009	4
ComEd	Pollution Control Revenue Bonds	5.850%	January 15, 2014	3
ComEd	Sinking Fund Debentures	3.125%	October 1, 2004	2
ComEd	Sinking Fund Debentures	3.875%	January 1, 2008	1
ComEd	Sinking Fund Debentures	4.625%	January 1, 2009	1
ComEd	Sinking Fund Debentures	4.750%	December 1, 2011	1
ComEd	First Mortgage Bonds	3.700%	February 1, 2008	55
ComEd	First Mortgage Bonds	4.700%	April 15, 2015	135
ComEd	First Mortgage Bonds	4.740%	August 15, 2010	38
ComEd	First Mortgage Bonds	5.875%	February 1, 2033	96
ComEd	First Mortgage Bonds	6.150%	March 15, 2012	150
ComEd	First Mortgage Bonds	7.000%	July 1, 2005	62
ComEd	First Mortgage Bonds	7.500%	July 1, 2013	20
ComEd	First Mortgage Bonds	7.625%	April 15, 2013	94
ComEd	First Mortgage Bonds	8.000%	May 15, 2008	20
ComEd	First Mortgage Bonds	8.250%	October 1, 2006	5
ComEd	First Mortgage Bonds	8.375%	October 15, 2006	94
PECO	Pollution Control Revenue Bonds (a)	5.200%	April 1, 2021	51
PECO	Pollution Control Revenue Bonds (a)	5.200%	October 1, 2030	92
PECO	Pollution Control Revenue Bonds (a)	5.300%	October 1, 2034	14
PECO	First Mortgage Bonds	6.375%	August 15, 2005	75
Enterprises	Note	7.680%	June 30, 2023	11
Enterprises	Note	9.090%	January, 31, 2020	26
Generation	Note—AmerGen	6.330%	August 8, 2009	10
Generation	Note—AmerGen	6.200%	December 20, 2004	16
Generation	Note—Sithe	8.500%	June 30, 2007	32
Exelon	Notes	7.980% to 8.875%	2009 and 2010	63
Other				8
Total retirements				\$1,629

(a) The bonds were redeemed with the proceeds from the issuance of pollution control revenue bonds by Generation.

During 2004, ComEd made payments of \$335 million related to its obligation to the ComEd Transitional Funding Trust, and PECO made payments of \$393 million related to its obligation to PETT.

During 2004, ComEd retired \$1.2 billion of long-term debt, including \$1.0 billion prior to its maturity and \$206 million at maturity, pursuant to Exelon's accelerated liability management plan. ComEd

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funded the retirements through cash from operations, a return of contributions to the intercompany money pool and collections on an intercompany note receivable from UII, LLC (formerly Unicom Investments, Inc.) Exelon recorded charges of \$130 million (before income taxes) in 2004 associated with the retirement of debt under the plan. The charges were included within other, net within Exelon's Consolidated Statements of Income. The components of the charges included the following: \$86 million for prepayment premiums; \$12 million for net unamortized premiums, discounts and debt issuance costs; \$24 million of losses on reacquired debt previously deferred as regulatory assets; and \$12 million for settled cash-flow interest-rate swaps previously deferred as regulatory assets partially offset by \$4 million of unamortized gain on settled fair value interest-rate swaps.

See Note 2—Acquisitions and Dispositions for information regarding debt classified as held for sale as of December 31, 2003.

See Note 16—Fair Value of Financial Assets and Liabilities for additional information regarding interest-rate swaps of ComEd, PECO and Generation.

See Note 17—Preferred Securities for additional information regarding preferred stock.

13. Income Taxes

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

	<u>For the Years Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Included in operations:			
Federal			
Current	\$401	\$275	\$624
Deferred	243	63	250
Investment tax credit amortization	(13)	(13)	(15)
State			
Current	89	92	96
Deferred	(28)	(86)	43
Total income tax expense	<u>\$692</u>	<u>\$331</u>	<u>\$998</u>
Included in cumulative effect of changes in accounting principles:			
Deferred			
Federal	\$ 12	\$ 58	\$ (87)
State	5	11	(3)
Total income tax expense (benefit)	<u>\$ 17</u>	<u>\$ 69</u>	<u>\$ (90)</u>

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The effective income tax rate varies from the U.S. Federal statutory rate principally due to the following:

	For the Years Ended December 31,		
	2004	2003	2002
U.S. Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State income taxes, net of Federal income tax benefit	1.6	0.4	3.2
Synthetic fuel-producing facilities credit ^(a)	(8.6)	(2.0)	—
Low income housing credit	(0.4)	(1.2)	(0.5)
Amortization of investment tax credit	(0.4)	(0.9)	(0.4)
Tax exempt income	(0.4)	(0.7)	(0.2)
Qualified nuclear decommissioning trust fund income	(0.3)	0.8	—
Nontaxable employee benefits	(0.3)	—	—
Other	1.3	(2.1)	0.3
Effective income tax rate	<u>27.5%</u>	<u>29.3%</u>	<u>37.4%</u>

(a) Change between 2003 and 2004 reflects investments in synthetic fuel-producing facilities made in the fourth quarter of 2003 and the third quarter of 2004. See Note 2—Acquisitions and Dispositions for additional information regarding investments in synthetic fuel-producing facilities.

The tax effects of temporary differences giving rise to significant portions of Exelon's deferred tax assets and liabilities as of December 31, 2004 and 2003 are presented below:

	2004	2003
Deferred tax liabilities:		
Plant basis difference	\$ 4,177	\$ 3,932
Stranded cost recovery	1,632	1,784
Deferred debt refinancing costs	56	69
Total deferred tax liabilities	<u>5,865</u>	<u>5,785</u>
Deferred tax assets:		
Deferred pension and postretirement obligations	(985)	(901)
Excess of tax value over book value of impaired assets ^(a)	(44)	(200)
Decommissioning and decontamination obligations	(145)	(97)
Unrealized loss on derivative financial instruments	(57)	(70)
Goodwill	(6)	(29)
Other, net	(208)	(290)
Total deferred tax assets	<u>(1,445)</u>	<u>(1,587)</u>
Deferred income tax liabilities (net) on the Consolidated Balance Sheets	<u>\$ 4,420</u>	<u>\$ 4,198</u>

(a) Includes impairments related to Exelon's investments in Sithe and Boston Generating and write-downs of certain Enterprises investments.

In accordance with regulatory treatment of certain temporary differences, Exelon has recorded a net regulatory asset associated with deferred income taxes, pursuant to SFAS No. 71 and SFAS No. 109, of \$751 million and \$701 million at December 31, 2004 and 2003, respectively. See Note 21—

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Supplemental Financial Information for further discussion of Exelon's regulatory asset associated with deferred income taxes.

ComEd and PECO have certain tax returns that are under review at the audit or appeals level of the IRS, and certain state authorities. Except for the tax positions discussed below, these reviews by governmental taxing authorities are not expected to have an adverse impact on the financial condition or result of operations of Exelon.

Exelon, through its ComEd subsidiary, has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets. As of December 31, 2004, deferred tax liabilities related to the fossil plant sale are reflected in Exelon's Consolidated Balance Sheets with the majority allocated to ComEd and the remainder to Generation. The 1999 income tax liability deferred as a result of these transactions was approximately \$1.1 billion. Exelon's ability to continue to defer a portion of this liability depends on whether its treatment of a portion of the sales proceeds as having been received in connection with an involuntary conversion is proper pursuant to IRS regulations and interpretations. Exelon's ability to continue to defer the remainder of this liability may depend in part on whether its tax characterization of a lease transaction it entered into in connection with the sale is proper pursuant to IRS regulations and interpretations. The IRS is likely to argue that the lease transaction is of a type it has recently announced its intention to challenge, and Exelon understands that somewhat similar transactions entered into by other companies have been the subject of review and challenge by the IRS. Changes in IRS interpretations of existing primary tax authority or challenges to ComEd's positions could have the impact of accelerating future income tax payments and increasing interest expense related to the deferred tax gain that becomes current. Any required payments could be significant to the cash flows of Exelon. Exelon's management believes Exelon's reserve for interest, which has been established in the event that such positions are not sustained, has been appropriately recorded in accordance with SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5); however, the ultimate outcome of such matters could result in unfavorable or favorable adjustments to the results of operations, and such adjustments could be material. Federal tax returns covering the period of the 1999 sale are currently under Internal Revenue Service (IRS) audit. Final resolution of this matter is not anticipated for several years.

It is presently unclear the extent to which any IRS challenge to such deferral would be successful. If the deferral was successfully challenged by the IRS, it could have a material adverse impact on Exelon's operating results.

As of December 31, 2004 and 2003, Exelon had recorded valuation allowances of \$9 million and \$22 million, respectively, with respect to deferred taxes associated with separate company state taxes. As of December 31, 2004, Exelon had net capital loss carryforwards for income tax purposes of approximately \$183 million, which expire beginning in 2008.

14. Nuclear Decommissioning and Spent Fuel Storage

Nuclear Decommissioning

Overview

Exelon has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. This obligation is reflected as an asset retirement obligation (ARO), which is

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classified as a noncurrent liability. Based on the actual or anticipated extended license lives of the nuclear plants, decommissioning expenditures for Exelon's nuclear power plants currently operating are expected to occur primarily during the period 2029 through 2056. Exelon owns three nuclear units that are retired and currently incur certain costs associated with decommissioning. The cost of nuclear decommissioning will be funded by investments held in trust funds that have been established for each nuclear station. Exelon had nuclear decommissioning trust funds totalling \$5,262 million and \$4,721 million as of December 31, 2004 and 2003, respectively. See Note 16—Fair Value of Financial Assets and Liabilities for more information regarding Exelon's nuclear decommissioning trust funds.

Cost Recovery and Decommissioning Responsibilities

Former ComEd plants. Exelon currently recovers in revenues funds for decommissioning the former ComEd nuclear plants through regulated rates collected by ComEd. The amounts recovered from customers are remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. Under a December 2000 Illinois Commerce Commission Order issued to ComEd, amended February 2001 (ICC Order), ComEd is permitted to collect up to \$73 million annually through 2006 from ratepayers to decommission the former ComEd nuclear plants. The amount of decommissioning revenue collections for 2005 and 2006 are anticipated to be less than \$73 million. Under the current ICC Order, ComEd will not collect amounts for decommissioning subsequent to 2006.

Based on the provisions of the ICC Order and NRC regulations, Exelon is financially responsible for the decommissioning obligations related to these plants. If trust assets plus future collections permitted by the ICC Order are exceeded by the ultimate ARO, Exelon is responsible for any shortfall in funding; however, if amounts remain in the trust funds for these units following the completion of the decommissioning activities, those amounts will be returned to the ComEd ratepayers. At the end of each financial reporting period, Exelon assesses the amounts currently recorded in trust assets plus future collections less amounts recorded in the ARO. At December 31, 2004 and 2003, Exelon recorded a regulatory liability for the amount of decommissioning-related assets in excess of the ARO.

Former PECO plants. Exelon currently recovers costs for decommissioning the former PECO nuclear plants through regulated rates collected by PECO. The amounts recovered from customers are remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. Under orders from the Pennsylvania Public Utility Commission (PUC), PECO is permitted to collect from ratepayers up to \$33 million annually for the full funding of the expected costs to decommission the former PECO nuclear plants. Based on the provisions of the PUC order, the PECO ratepayers are financially responsible for the majority of any shortfalls in the costs to decommission these nuclear units; however, the PECO ratepayers will receive any excess amounts from the trust funds at the completion of decommissioning. Exelon is responsible for 1) the first \$50 million of the decommissioning costs above a certain threshold established under the PUC order and 2) five percent of the decommissioning costs above that first \$50 million of costs that exceed the established threshold. Exelon expects total decommissioning costs to exceed this threshold and expects to be held responsible for the entire \$50 million over the remaining life of the assets. At the end of each financial reporting period, Exelon assesses the amounts currently recorded in trust assets plus future collections less amounts recorded in the ARO. At December 31, 2004 and 2003, Exelon recorded a regulatory liability for the amount of decommissioning-related assets in excess of the ARO.

AmerGen plants. Exelon does not recover costs for decommissioning the AmerGen nuclear plants from customers. As such, Exelon is financially responsible for the decommissioning of these plants and

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bears all risks and benefits related to the funding levels associated with these plants' decommissioning trust funds.

Adoption of SFAS No. 143

Exelon adopted SFAS No. 143 on January 1, 2003, which promulgates the accounting for AROs. In accordance with SFAS No. 143, a probability-weighted, discounted cash flow model with multiple scenarios was used to determine the fair value of the decommissioning obligation. SFAS No. 143 states that the estimated fair value of the decommissioning obligation represents the amount a third party would receive for assuming an entity's entire obligation. The present value of future estimated cash flows required to decommission the nuclear stations was calculated using credit-adjusted, risk-free rates applicable to the various businesses in order to determine the fair value of the decommissioning obligation at the time of adoption of SFAS No. 143.

Former ComEd plants. The transition provisions of SFAS No. 143 required Exelon to apply the fair value remeasurement back to the historical periods in which AROs were originally incurred, resulting in a remeasurement of these obligations at the date the assets were acquired by Exelon. Since the nuclear plants previously owned by ComEd were acquired by Exelon on October 20, 2000 (and subsequently transferred to Generation as a result of the Exelon corporate restructuring on January 1, 2001), Exelon's historical accounting for its ARO associated with those plants was revised as if SFAS No. 143 had been in effect at the merger date. The calculation of the SFAS No. 143 ARO yielded decommissioning obligations lower than the value of the corresponding trust assets at January 1, 2003. Since the trust fund assets exceeded the fair value of the ARO, a regulatory liability of \$948 million was recorded at January 1, 2003. As a result of increases in the trust funds due to market conditions, the regulatory liability has increased to \$1,433 million at December 31, 2004.

In accordance with the provisions of SFAS No. 143 and regulatory accounting guidance, Exelon recorded a SFAS No. 143 transition adjustment to accumulated other comprehensive income to reclassify \$168 million, net of tax, of accumulated net unrealized losses in the nuclear decommissioning trust funds to the regulatory liability associated with the former ComEd plants.

Former PECO plants. In the case of the former PECO plants, the SFAS No. 143 ARO calculation yielded decommissioning obligations greater than the corresponding trust assets at January 1, 2003. As such, a regulatory asset of \$20 million was recorded. As a result of increases in the trust funds due to market conditions and contributions collected from PECO customers, the trust fund assets exceeded the ARO at December 31, 2004 and Exelon has a regulatory liability to the PECO ratepayers of \$46 million. At December 31, 2003, Exelon had a regulatory liability to the PECO ratepayers of \$12 million related to nuclear decommissioning.

Upon adoption, and in accordance with the provisions of SFAS No. 143, Exelon capitalized an asset retirement cost (ARC) asset within property, plant and equipment of \$172 million related to the establishment of the ARO for the former PECO plants. The ARC is being amortized over the remaining useful lives of the former PECO plants.

Exelon believes that all of the decommissioning assets, anticipated earnings thereon and future revenues from decommissioning collections will be used to decommission the former ComEd and PECO nuclear plants. As such, Exelon expects the regulatory liabilities to be reduced to zero at the conclusion of the decommissioning activities.

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AmerGen plants. At the time of the adoption of SFAS No. 143 on January 1, 2003, Exelon had a 50% ownership of AmerGen. Exelon recorded income of \$29 million (after income taxes) as the cumulative effect of changes in accounting principles.

Impact of Current Regulatory Orders on the Application of SFAS No. 143

Increases in the ARO due to the passage of time are recorded in operating and maintenance expense as accretion expense. Increases in the ARO resulting from revisions to the estimated future cash flows are generally recorded with a corresponding adjustment to the basis of plant value, by recording an ARC asset. The ARC is depreciated on a straight-line basis over the remaining life of the unit to which it relates. Changes in the nuclear decommissioning trust funds are discussed in Note 16 - Fair Value of Financial Assets and Liabilities.

Former ComEd plants. As of December 31, 2004, the trust assets associated with the former ComEd plants exceeded the ARO for those plants. Until such time, if ever, that the ARO exceeds the decommissioning-related assets, Exelon's net income should not reflect the impacts of any income or expenses associated with decommissioning the former ComEd nuclear units. As such, decommissioning revenues collected, nuclear decommissioning trust fund investment income, accretion expense and depreciation of the ARC are not reflected in net income as they are offset by the adjustment to the regulatory liability to ComEd's ratepayers to the extent the decommissioning-related assets exceed the ARO.

Former PECO plants. As of December 31, 2004, the trust assets associated with the former PECO plants exceeded the ARO for those plants. The regulatory order associated with the former PECO units ensures that Exelon will not be financially responsible for the decommissioning of these units, with the exception of certain amounts described above. As such, Exelon's net income should not reflect the impacts of any income or expenses associated with decommissioning the former PECO nuclear units, except for the accretion expense associated with its decommissioning cost responsibility above the decommissioning cost thresholds established by the PUC, as previously discussed. The net effect of decommissioning revenues collected, nuclear decommissioning trust fund investment income, accretion expense and depreciation of the ARC is adjusted so that the amounts net to an insignificant amount in Exelon's Consolidated Statements of Income. This adjustment is reflected as a change in the regulatory liability to PECO's ratepayers.

AmerGen plants. Beginning in 2004, decommissioning activity related to the AmerGen units is reflected in Exelon's Consolidated Statements of Income. The AmerGen units are not subject to any cost recovery regulation and, as such, Exelon will be required to fund any shortfall of trust assets below the decommissioning obligations. Similarly, Exelon will not be required to refund any excess trust funds to customers if the obligation is less than the available trust funds. As such, the impacts of nuclear decommissioning trust fund investment income, accretion expense and depreciation of the ARC are all included in Exelon's Consolidated Statements of Income. Prior to December 2003 and Exelon's acquisition of British Energy's 50% interest in AmerGen, the impact to Exelon for accounting for the decommissioning of the AmerGen plants was recorded within Exelon's equity in earnings of AmerGen. In addition, Exelon's proportionate share of unrealized gains and losses on AmerGen's decommissioning trust funds were reflected in Exelon's other comprehensive income.

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2004 Update of ARO

Generation updates its ARO on a periodic basis. During 2004, Generation recorded a \$780 million net increase to the ARO resulting from revisions to estimated future nuclear decommissioning cash flows. This update also resulted in an adjustment to the basis of property, plant and equipment of \$780 million by recording a corresponding net increase to the ARC. This increase to the ARO was primarily a result of updated decommissioning cost studies and changes in cost escalation factors used to estimate future undiscounted costs, both of which are provided by independent third-party appraisers. Cost estimates are updated every three to five years in accordance with NRC regulations and industry practice. The net increase in the ARO for the former ComEd units, the former PECO units and the AmerGen units resulting from revisions to estimated cash flows during 2004 was \$563 million, \$142 million and \$75 million, respectively. As of December 31, 2004, the ARO balances for the former ComEd, the former PECO and the AmerGen units totaled approximately \$2.3 billion, \$1.0 billion and \$0.6 billion, respectively.

The following table provides a roll forward reconciliation of the ARO reflected on Exelon's Consolidated Balance Sheets from January 1, 2003 to December 31, 2004:

Asset retirement obligation at January 1, 2003	\$2,366
Consolidation of AmerGen	487
Accretion expense	161
Payments to decommission retired plants	(14)
Reclassification of Thermal ARO as held for sale ^(a)	(3)
Asset retirement obligation at December 31, 2003	2,997
Net increase resulting from updates to future estimated cash flows	780
Accretion expense	210
Additional liabilities incurred ^(b)	6
Payments to decommission retired plants	(12)
Asset retirement obligation at December 31, 2004	<u>\$3,981</u>

(a) The ARO of Thermal was subsequently relieved upon its sale in the second quarter of 2004.

(b) Additional liabilities incurred are primarily due to the consolidation of Sithe.

Accounting Prior to the Adoption of SFAS No. 143

Prior to January 1, 2003, Exelon accounted for the current period's cost of decommissioning related to generating plants previously owned by PECO in accordance with common regulatory accounting practices by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation concurrently with recognizing decommissioning collections. Financial activity of the decommissioning trust (e.g., investment income and realized and unrealized gains and losses on trust investments) was reflected in nuclear decommissioning trust funds in Exelon's Consolidated Balance Sheets with a corresponding offset recorded to accumulated depreciation.

Regulatory accounting practices for the nuclear generating stations previously owned by ComEd were discontinued as a result of an ICC Order capping ComEd's ultimate recovery of decommissioning costs. The difference between the decommissioning cost estimate and the decommissioning liability recorded in accumulated depreciation for the former ComEd operating stations was previously amortized to depreciation expense on a straight-line basis over the remaining lives of the stations. The

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decommissioning cost estimate (adjusted annually to reflect inflation) for the former ComEd retired units recorded in deferred credits and other liability was previously accreted to depreciation expense. Financial activity of the decommissioning trust funds related to Generation's nuclear generating stations no longer accounted for under common regulatory practices was reflected in nuclear decommissioning trust funds in Exelon's Consolidated Balance Sheets with a corresponding gain or expense recorded in Exelon's Consolidated Income Statements or in other comprehensive income.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the development of a repository for the disposal of spent nuclear fuel (SNF) and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from its nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation pays the DOE one mill (\$.001) per kilowatt-hour of net nuclear generation for the cost of nuclear fuel long-term disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF facility is 2012. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry cask storage at its Dresden, Quad Cities, Oyster Creek and Peach Bottom stations and its consideration of dry cask storage at other stations.

The Standard Contracts with the DOE also required the payment to the DOE a one-time fee applicable to nuclear generation through April 6, 1983. PECO's fee has been paid. Pursuant to the Standard Contracts, ComEd elected to pay the one-time fee of \$277 million, with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2004, the unfunded liability for the one-time fee with interest was \$878 million. Interest accrues at the 13-week Treasury Rate, which was 1.987% at December 31, 2004. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the corporate restructuring. The one-time fee obligation for the AmerGen units remains with the prior owner. The Clinton Unit has no outstanding obligation.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998. In August 2001, the Court granted ComEd's motion for partial summary judgment for liability on ComEd's breach of contract claim. In November 2001, the Government filed two partial summary judgment motions relating to certain damage issues in the case as well as two motions to dismiss claims other than ComEd's breach of contract claim. On June 10, 2003, the Court granted the Government's motion to dismiss claims other than the breach of contract claims. Also on June 10, 2003, the Court denied the Government's summary judgment motions and set the case for trial on damages for November 2004.

In July 2000, PECO entered into an agreement (Amendment) with the DOE relating to PECO's Peach Bottom nuclear generating unit to address the DOE's failure to begin removal of SNF in January 1998 as required by the Standard Contracts. Under the Amendment, the DOE agreed to provide PECO with credits against PECO's future contributions to the Nuclear Waste Fund to compensate PECO for SNF storage costs incurred as a result of the DOE's breach of the contract. The Amendment also

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provided that, upon PECO's request, the DOE will take title to the SNF and the interim storage facility at Peach Bottom provided certain conditions are met. Generation assumed this contract in the 2001 corporate restructuring.

In November 2000, eight utilities with nuclear power plants filed a Joint Petition for Review against the DOE with the United States Court of Appeals for the Eleventh Circuit seeking to invalidate that portion of the Amendment providing for credits to PECO against nuclear waste fund payments on the ground that such provision is a violation of the NWPA. PECO intervened as a defendant in that case, and Generation assumed the claim in the 2001 corporate restructuring. On September 24, 2002, the United States Court of Appeals for the Eleventh Circuit ruled that the fee adjustment provision of the Amendment violates the NWPA and therefore is null and void. The Court did not hold that the Amendment as a whole is invalid. Article XVI(I) of the Amendment provides that if any portion of the Amendment is found to be void, the DOE and Generation agree to negotiate in good faith and attempt to reach an enforceable agreement consistent with the spirit and purpose of the Amendment. That provision further provided that should a major term be declared void, and the DOE and Generation cannot reach a subsequent agreement, the entire Amendment would be rendered null and void, the original Peach Bottom Standard Contracts would remain in effect and the parties would return to pre-Amendment status. Under the Amendment, Generation has received approximately \$40 million in credits against contributions to the nuclear waste fund.

On August 14, 2003, Generation received a letter from the DOE demanding repayment of \$40 million of previously received credits from the Nuclear Waste Fund. The letter also demanded \$1.5 million of interest that was accrued as of that date, and Generation continued to accrue interest expense each subsequent month. Generation reserved its 50% ownership share of these amounts. Because Generation expenses the dry storage casks and capitalizes the permanent components of its spent fuel storage facilities, these reserves increased Generation's operating and maintenance expense approximately \$11 million and its capital base approximately \$9 million during 2003.

On July 21, 2004, Exelon and the U.S. Department of Justice, in close consultation with the DOE, reached a settlement under which the government will reimburse Exelon for costs associated with storage of spent fuel at Generation's nuclear stations pending DOE's fulfillment of its obligations. Under the agreement, Generation immediately received \$80 million in gross reimbursements for storage costs already incurred (\$53 million net after considering amounts due from Generation to co-owners of certain nuclear stations), with additional amounts to be reimbursed annually for future costs. In all cases, reimbursements will be made only after costs are incurred and only for costs resulting from DOE delays in accepting the fuel. As of December 31, 2004, the amount of spent fuel storage costs for which reimbursement will be requested in mid-2005 from the DOE under the settlement agreement is \$33 million net, which is recorded within accounts receivable, other. This amount is comprised of \$14 million, which has been recorded as a reduction to operating and maintenance expense; and \$12 million, which has been recorded as a reduction to capital expenditures. The remaining \$7 million represents amounts owed to the co-owners of the Peach Bottom and Quad Cities generating facilities.

15. Retirement Benefits

Exelon sponsors defined benefit pension plans and postretirement welfare benefit plans for essentially all ComEd, PECO, Generation (except for AmerGen) and Exelon Business Services Company (BSC) employees and certain employees of Enterprises. Substantially all non-union

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employees and electing union employees hired on or after January 1, 2001 participate in Exelon-sponsored cash balance pension plans. Substantially all non-union employees hired prior to January 1, 2001 were offered a choice to remain in Exelon's traditional pension plan or transfer to a cash balance pension plan for management employees. Employees of AmerGen participate in separate defined benefit pension plans and postretirement welfare benefit plans sponsored by AmerGen. AmerGen is currently offering its employees a choice to remain in their traditional benefit formula or convert to a cash balance formula.

The costs of providing benefits under these plans are dependent on historical information, such as employee age, length of service and level of compensation, and the actual rate of return on plan assets, in addition to assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, rate of compensation increase and the anticipated rate of increase in health care costs. The impact of changes in these factors on pension and other postretirement welfare benefit obligations is generally recognized over the expected remaining service life of the employees rather than immediately recognized in the income statement. Exelon uses a December 31 measurement date for the majority of its plans.

Exelon's traditional and cash balance pension plans are intended to be tax-qualified defined benefit plans, and Exelon has submitted applications to the IRS for rulings on the tax-qualification of the form of each plan. By letters dated April 21, 2004, the IRS notified Exelon that the rulings on its applications for the traditional and management cash balance plans were delayed pending advice from the IRS's National Office, pursuant to a previously announced moratorium on rulings with respect to plans involved in so called cash balance "conversions." On June 1, 2004, the IRS issued a favorable ruling on the union cash balance plan.

Various methods used by other employers to accrue and calculate benefits under cash balance plans have been challenged in recent lawsuits. The design of Exelon's cash balance plans differs in certain material respects from the cash balance plans involved in the cases decided to date, and the courts have not reached uniform decisions on certain issues. In addition, the U.S. Treasury Department recently withdrew proposed regulations intended to clarify the application of certain rules to cash balance plans, and proposed other regulations that could adversely affect the qualified status of Exelon's cash balance plans. As a result, considerable uncertainty remains regarding the application of the Employee Retirement Income Security Act of 1974 (ERISA), the Internal Revenue Code and Federal employment laws to Exelon's cash balance plans. Exelon does not know how the current uncertainty will be resolved and cannot determine at this time what impact, if any, future developments in this area will have on its pension plans or the funding of its pension obligations.

Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended.

Effective January 1, 2005, Exelon changed the benefit provisions of its postretirement welfare benefit plans. The changes triggered a remeasurement of the plan assets and obligations as of August 1, 2004. The plan change resulted in a reduction in the accumulated postretirement benefit obligation of \$106 million and a reduction of other postretirement benefit costs in 2004 of \$6 million.

During 2003, Exelon announced an amendment related to the benefit provisions of its postretirement welfare benefit plans. The amendment was effective August 1, 2003 and reduced the benefits attributable to prior service through increased retiree cost-sharing for medical coverage.

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Due to an overall reduction in active employees during 2003, certain defined benefit pension plans and postretirement welfare benefit plans were subject to curtailment accounting that resulted in a remeasurement of the plan obligations. The threshold basis for curtailment remeasurement was a reduction in future service greater than 5%. The net benefit obligations of the pension plans and the postretirement welfare benefit plans increased by \$48 million and \$27 million, respectively, in 2003 due to the curtailment.

For certain of Exelon's defined benefit pension plans, the benefit payments in 2004 exceeded the service and interest cost recognized. As a result, the plans were subject to settlement accounting that resulted in a reduction in the net benefit obligation of \$19 million and an increase in 2004 pension cost of \$17 million.

On December 22, 2003, Generation purchased British Energy's 50% interest in AmerGen, and as a result, the obligations associated with AmerGen's pension and postretirement welfare plans are reflected in the disclosures below as an acquisition.

The following tables provide a roll forward of the changes in the benefit obligations and plan assets for the most recent two years:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Change in benefit obligation:				
Net benefit obligation at beginning of year	\$8,758	\$7,854	\$3,019	\$2,555
Service cost	128	109	78	68
Interest cost	545	519	163	167
Plan participants' contributions	—	—	17	15
Plan amendments	—	—	(106)	(337)
Actuarial loss (gain)	964	711	(10)	559
AmerGen acquisition	—	67	—	80
Curtailments/settlements	(19)	48	—	27
Special accounting costs	—	—	16	48
Gross benefits paid	(601)	(550)	(189)	(163)
Net benefit obligation at end of year	<u>\$9,775</u>	<u>\$8,758</u>	<u>\$2,988</u>	<u>\$3,019</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$6,442	\$5,395	\$1,171	\$ 958
Actual return on plan assets	723	1,189	115	227
Employer contributions	450	367	132	134
Plan participants' contributions	—	—	17	15
AmerGen acquisition	—	41	—	—
Gross benefits paid	(601)	(550)	(189)	(163)
Fair value of plan assets at end of year	<u>\$7,014</u>	<u>\$6,442</u>	<u>\$1,246</u>	<u>\$1,171</u>

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The following table provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Fair value of plan assets at end of year	\$ 7,014	\$ 6,442	\$ 1,246	\$ 1,171
Benefit obligations at end of year	9,775	8,758	2,988	3,019
Funding status (plan assets less plan obligations) ...	(2,761)	(2,316)	(1,742)	(1,848)
Amounts not recognized:				
Miscellaneous adjustment	—	14	—	—
Unrecognized net actuarial loss	2,954	2,203	1,046	1,129
Unrecognized prior service cost (benefit)	170	185	(445)	(420)
Unrecognized net transition obligation (asset) ..	(4)	(8)	76	86
Net amount recognized	<u>\$ 359</u>	<u>\$ 78</u>	<u>\$(1,065)</u>	<u>\$(1,053)</u>

The following table provides a reconciliation of the amounts recognized in the Consolidated Balance Sheets as of December 31, 2004 and 2003:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Prepaid benefit cost	\$ 407	\$ 175	\$ —	\$ —
Accrued benefit cost	(48)	(97)	(1,065)	(1,053)
Additional minimum liability	(2,352)	(1,746)	—	—
Intangible asset	171	186	—	—
Accumulated other comprehensive income	2,181	1,560	—	—
Net amount recognized	<u>\$ 359</u>	<u>\$ 78</u>	<u>\$(1,065)</u>	<u>\$(1,053)</u>

The accumulated benefit obligation (ABO) for all defined benefit pension plans was \$9,006 million and \$8,104 million at December 31, 2004 and 2003, respectively. The acquisition of AmerGen and assumption of its pension liabilities in December 2003 resulted in a \$55 million increase in Exelon's ABO. The following table provides the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with an ABO in excess of plan assets. The table below is also representative of all pension plans with a projected benefit obligation in excess of plan assets.

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Projected benefit obligation	\$9,775	\$8,758
Accumulated benefit obligation	9,006	8,104
Fair value of plan assets	7,014	6,442

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The following table provides the components of the net periodic benefit costs for the years ended December 31, 2004, 2003 and 2002. The table reflects an annualized reduction in 2004 net periodic postretirement benefit cost of \$33 million related to a Federal subsidy provided under the Prescription Drug Act. This subsidy has been accounted for under FSP FAS 106-2, as described in Note 1—Significant Accounting Policies. A portion of the net periodic benefit cost is capitalized within the Consolidated Balance Sheets.

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Service cost	\$ 128	\$ 109	\$ 95	\$ 78	\$ 68	\$ 57
Interest cost	545	519	525	163	167	160
Expected return on assets	(611)	(584)	(628)	(90)	(75)	(93)
Amortization of:						
Transition obligation (asset)	(4)	(4)	(4)	10	10	10
Prior service cost	15	16	16	(81)	(54)	(37)
Actuarial (gain) loss	73	23	—	44	47	6
Curtailment/settlement charges	22	59	—	2	21	—
Net periodic benefit cost	<u>\$ 168</u>	<u>\$ 138</u>	<u>\$ 4</u>	<u>\$ 126</u>	<u>\$ 184</u>	<u>\$ 103</u>
Special accounting costs	\$ —	\$ —	\$ 4	\$ 16	\$ 48	\$ —
Other additional information:						
Increase (decrease) in other comprehensive income (net of tax)	\$(392)	\$ 26	\$(1,007)	\$ —	\$ —	\$ —

Exelon's costs of providing pension and postretirement benefit plans are dependent upon a number of factors, such as the rates of return on pension plan assets, discount rate, and the rate of increase in health care costs. The market value of plan assets was affected by sharp declines in the equity market from 2000 through 2002. As a result, at December 31, 2002, Exelon was required to recognize an additional minimum liability and an intangible asset as prescribed by SFAS No. 87. The liability was recorded as a reduction to shareholders' equity. The amount of the reduction to shareholders' equity (net of income taxes) in 2002 was \$1.0 billion. The recording of this reduction did not affect net income or cash flows in 2002 or compliance with debt covenants. In 2003, the additional minimum liability was reduced by \$69 million and shareholders' equity increased by \$26 million (net of income taxes) as a result of accounting associated with Exelon's pension plans. In 2004, the additional minimum pension liability was increased by \$606 million and shareholders' equity decreased by \$392 million (net of income taxes) as a result of accounting associated with Exelon's pension plans.

Special accounting costs of \$16 million and \$48 million in 2004 and 2003, respectively, represent special health and welfare severance benefits offered to terminated employees. These costs were recorded pursuant to SFAS No. 112. See Note 10—Severance Accounting for additional information. Special accounting costs of \$4 million in 2002 represented accelerated separation and enhancement benefits provided to PECO employees expected to be terminated as a result of the PECO / Unicom Merger.

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.

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The following weighted average assumptions were used to determine the benefit obligations at December 31 2004, 2003 and 2002:

	Pension Benefits			Other Postretirement Benefits		
	2004 (a)	2003	2002	2004 (a)	2003	2002
Discount rate	5.75%	6.25%	6.75%	5.75%	6.25%	6.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	9.00%	10.00%	8.50%
				decreasing to ultimate trend of 5.0% in 2010	decreasing to ultimate trend of 4.5% in 2011	decreasing to ultimate trend of 4.5% in 2008

(a) Assumptions used to determine year-end 2004 benefit obligations will be the assumptions used to estimate the expected costs of benefits in 2005.

The following weighted average assumptions were used to determine the net periodic benefit costs for years ended December 31 2004, 2003 and 2002:

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.60-6.75%	7.35%	6.25%	6.60-6.75%	7.35%
Expected return on plan assets	9.00%	9.00%	9.50%	8.33-8.35%	8.40%	8.80%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	10.00%	8.50%	10.00%
				decreasing to ultimate trend of 4.5% in 2011	decreasing to ultimate trend of 4.5% in 2008	decreasing to ultimate trend of 4.5% in 2008

In managing its pension and postretirement plan assets, Exelon utilizes a diversified, strategic asset allocation to efficiently and prudently generate investment returns that will meet the objectives of the investment trusts that hold the plan assets. Asset / Liability studies that incorporate specific plan objectives as well as assumptions regarding long-term capital market returns and volatilities generate the specific asset allocations for the trusts. In general, Exelon's investment strategy reflects the belief that over the long term, equities are expected to outperform fixed-income investments. The long-term nature of the trusts make them well suited to bear the risk of added volatility associated with equity securities, and, accordingly, the asset allocations of the trusts usually reflect a higher allocation to equities as compared to fixed-income securities. Non-U.S. equity securities are used to diversify some of the volatility of the U.S. equity market while providing comparable long-term returns. Alternative asset classes, such as private equity and real estate, may be utilized for additional diversification and return potential when appropriate. Exelon's investment guidelines do limit exposure to investments in more volatile sectors.

Exelon generally maintains 60% of its plan assets in equity securities and 40% of its plan assets in fixed-income securities. On a quarterly basis, Exelon reviews the actual asset allocations and follows a rebalancing procedure in order to remain within an allowable range of these targeted percentages.

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Notes to Consolidated Financial Statements—(Continued)
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In selecting the expected rate of return on plan assets, Exelon considers historical returns for the types of investments that its plans hold. Historical returns and volatilities are modeled to determine asset allocations that best meet the objectives of the asset / liability studies. These asset allocations, when viewed over a long-term historical view of the capital markets, yield an expected return on assets in excess of 9%.

Exelon's pension plan weighted average asset allocations at December 31, 2004 and 2003 and target allocation for 2004 were as follows:

<u>Asset Category</u>	<u>Target Allocation at December 31, 2004</u>	<u>Percentage of Plan Assets at December 31,</u>	
		<u>2004</u>	<u>2003</u>
Equity securities	60%	63%	64%
Debt securities	35-40	33	32
Real estate	0-5	4	4
Total		<u>100%</u>	<u>100%</u>

Exelon's other postretirement benefit plan weighted average asset allocations at December 31, 2004 and 2003 and target allocation for 2004 were as follows:

<u>Asset Category</u>	<u>Target Allocation at December 31, 2004</u>	<u>Percentage of Plan Assets at December 31,</u>	
		<u>2004</u>	<u>2003</u>
Equity securities	60-65%	64%	67%
Debt securities	35-40	34	33
Real estate	—	2	—
Total		<u>100%</u>	<u>100%</u>

Exelon's pension plans and postretirement welfare benefit plans do not directly hold shares of Exelon common stock.

Assumed health care cost trend rates have a significant effect on the costs reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	\$ 34
on postretirement benefit obligation	\$ 327
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	\$ (28)
on postretirement benefit obligation	\$(276)

In the fourth quarter of 2004, Exelon's Board of Directors approved a proposal to make contributions of approximately \$2 billion in 2005 to the Exelon defined benefit pension plans, reducing the under funded status of these plans. These contributions exclude benefit payments expected to be

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
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made directly from corporate assets. Of the \$2 billion expected to be contributed to the pension plans during 2005, \$13 million is estimated to be needed to satisfy ERISA minimum funding requirements.

Estimated future benefit payments to participants in Exelon's pension plans and postretirement welfare benefit plans as of December 31, 2004 were:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits ^(a)</u>
2005	\$ 531	\$ 163
2006	530	170
2007	536	181
2008	537	190
2009	544	197
2010 through 2014	<u>2,911</u>	<u>1,088</u>
Total estimated future benefits payments	<u>\$5,589</u>	<u>\$1,989</u>

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by Exelon in the years 2006, 2007, 2008, 2009 and from 2010 through 2014 are estimated to be \$8 million, \$8 million, \$9 million, \$10 million and \$63 million, respectively. A subsidy is not anticipated for 2005.

Exelon sponsors savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pre-tax income in accordance with specified guidelines. Exelon matches a percentage of the employee contribution up to certain limits. The cost of Exelon's matching contribution to the savings plans totaled \$57 million, \$55 million, and \$63 million in 2004, 2003 and 2002, respectively.

16. Fair Value of Financial Assets and Liabilities

Non-Derivative Financial Assets and Liabilities

Fair Value. As of December 31, 2004 and 2003, Exelon's carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are representative of fair value because of the short-term nature of these instruments. Fair values for long-term debt and preferred securities of subsidiaries are determined by an external valuation model which is based on conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves.

The carrying amounts and fair values of Exelon's financial liabilities as of December 31, 2004 and 2003 were as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt (including amounts due within one year)	\$7,719	\$8,372	\$9,274	\$9,922
Long-term debt to ComEd Transitional Funding Trust and PETT (including amounts due within one year)	4,797	5,182	5,525	6,006
Long-term debt to other financing trusts	545	573	545	567
Preferred securities of subsidiaries	87	69	87	71

Exelon Corporation and Subsidiary Companies

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Credit Risk. Financial instruments that potentially subject Exelon to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. Exelon places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to Exelon's large number of customers and, in the case of the Energy Delivery business, their dispersion across many industries.

Derivative Instruments

Fair Value. The fair values of Exelon's interest-rate swaps and power purchase and sale contracts are determined using quoted exchange prices, external dealer prices or internal valuation models which utilize assumptions of future energy prices and available market pricing curves.

Interest-Rate Swaps. At December 31, 2004 and 2003, Exelon had \$0.4 billion and \$1.3 billion, respectively, of notional amounts of interest-rate swaps outstanding with net deferred gains (losses) of \$11 million and \$(44) million, respectively, as follows:

	<u>Notional Amount</u>	<u>Exelon Pays</u>	<u>Counterparty Pays</u>	<u>Fair Value 12/31/04</u>	<u>Fair Value 12/31/03</u>
Fair-Value Hedges					
ComEd	\$240	3 Month LIBOR plus 1.12% – 1.60%	6.15%	\$ 9	\$—
ComEd	485	3 Month LIBOR plus 1.68% – 3.09%	6.40% – 8.25%	—	33
Cash-Flow Hedges					
Exelon	200	4.59% – 4.65%	3 Month LIBOR	2	—
Generation	861 ^(a)	5.71% – 5.74%	3 Month LIBOR	—	(77)
Net Deferred Gains (Losses) ...				<u>\$ 11</u>	<u>\$(44)</u>

(a) Generation was released from its obligation due to sale of Boston Generating assets.

During 2004, Exelon settled interest-rate swaps in aggregate notional amounts of \$800 million, and recorded net pre-tax gains of \$27 million. Of the \$27 million net gain, \$26 million was the result of settlement by ComEd of interest-rate swaps designated as fair-value hedges and is being amortized as a reduction to interest expense over the remaining life of the related debt. The remaining \$1 million was the result of settlement by Exelon and PECO of interest-rate swaps designated as cash-flow hedges and is being amortized over the lives of the related debt.

During 2003, Exelon settled interest-rate swaps in aggregate notional amounts of \$860 million and recorded net pre-tax gains of \$1 million. The \$1 million gain was the result of settlement by PECO and Generation of interest-rate swaps designated as cash-flow hedges and is being amortized over the lives of the related debt. Additionally, during 2003, Exelon settled interest-rate swaps in aggregate notional amounts of \$1,070 million and recorded net pre-tax losses of \$45 million which were recorded as regulatory assets. The pre-tax losses on settlements of interest-rate swaps are being amortized over the life of the related debt to interest expense.

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Exelon recorded income of \$0.2 million for the year ended December 31, 2004, representing the ineffective portions of changes in the fair value of cash-flow hedge positions. This amount was associated with the settlement of interest-rate swaps in December 2004 and was included in other, net on Exelon's consolidated statements of income. Exelon did not have any amount excluded from the measure of effectiveness for the year ended December 31, 2004.

During 2004 and 2003, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable.

Energy-Related Derivatives. Exelon utilizes derivatives to manage the utilization of its available generating capacity and the provision of wholesale energy to its affiliates. Exelon also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Exelon enters into certain energy-related derivatives for trading or speculative purposes. At December 31, 2004 and 2003, Exelon had \$145 million and \$213 million, respectively, of energy derivatives recorded as net liabilities at fair value on the Consolidated Balance Sheets, which includes the energy derivatives at Generation discussed below.

For the years ended December 31, 2004, 2003, and 2002, Generation recognized net unrealized gains of \$42 million, net unrealized losses of \$16 million and net unrealized gains of \$6 million, respectively, relating to mark-to-market activity of certain non-trading power purchase and sale contracts pursuant to SFAS No. 133. Mark-to-market activity on non-trading power purchase and sale contracts are reported in fuel and purchased power. For the years ended December 31, 2004, 2003 and 2002, Generation recognized net unrealized gains of \$3 million and net unrealized losses of \$3 million and \$9 million, respectively, relating to mark-to-market activity on derivative instruments entered into for trading purposes. Gains and losses associated with financial trading are reported as revenue in the Consolidated Statements of Income.

Exelon Energy has entered into a limited number of energy commodity derivative contracts in connection with its service of gas customers. Prior to January 1, 2004, contracts were maintained by Exelon Energy. While the majority of these contracts qualify as normal purchases and sales or as cash-flow hedges under SFAS No. 133, \$15 million was recorded as an increase to fuel expense in 2003 primarily as a result of the reversal of the 2002 mark-to-market adjustments. At December 31, 2004, Exelon Energy's contracts are included in Generation's mark-to-market activity. At December 31, 2003, Exelon had net assets of \$3 million on the Consolidated Balance Sheets related to Exelon Energy's mark-to-market contracts. Exelon Energy's counterparties in these contracts were all investment grade.

As of December 31, 2004, \$194 million of deferred net losses on derivative instruments in accumulated other comprehensive income are expected to be reclassified to earnings during the next twelve months. Amounts in accumulated other comprehensive income related to changes in interest-rate cash-flow hedges are reclassified into earnings when the interest payment occurs or when ineffectiveness has been determined. Amounts in accumulated other comprehensive income related to changes in energy commodity cash-flow hedges are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs. The majority of Exelon's cash-flow hedges are expected to settle within the next three years.

Credit Risk Associated with Derivative Instruments. Exelon would be exposed to credit-related losses in the event of non-performance by counterparties that issue derivative instruments. The credit

Exelon Corporation and Subsidiary Companies

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exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. For energy-related derivative instruments, Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The notional amount of derivatives does not represent amounts that are exchanged by the parties and, thus, is not a measure of Exelon'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.

Nuclear Decommissioning Trust Fund Investments

Investments as of December 31, 2004 and 2003. Exelon classifies investments in trust accounts for decommissioning nuclear plants as available-for-sale and estimates their fair value based on quoted market prices for the securities held in trust funds. These investments are held to fund Exelon's decommissioning obligation for its nuclear plants. Decommissioning expenditures are expected to occur primarily after the plants are retired. Based on current licenses and anticipated renewals, decommissioning expenditures for plants in operation are currently estimated to begin in 2029. See Note 14—Nuclear Decommissioning and Spent Fuel Storage for further information regarding the decommissioning of Generation's nuclear plants.

The following tables show the fair values, gross unrealized gains and losses and amortized cost bases of the securities held in these trust accounts as of December 31, 2004 and 2003.

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	\$ 184	\$ —	\$ —	\$ 184
Equity securities	2,194	538	(37)	2,695
Debt securities				
Federal government obligations	1,447	51	(4)	1,494
Other debt securities	855	37	(3)	889
Total debt securities	2,302	88	(7)	2,383
Total available-for-sale securities	<u>\$4,680</u>	<u>\$ 626</u>	<u>\$ (44)</u>	<u>\$5,262</u>
	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	\$ 84	\$ —	\$ —	\$ 84
Equity securities	2,402	300	(294)	2,408
Debt securities				
Federal government obligations	1,574	65	(4)	1,635
Other debt securities	567	29	(2)	594
Total debt securities	2,141	94	(6)	2,229
Total available-for-sale securities	<u>\$4,627</u>	<u>\$394</u>	<u>\$(300)</u>	<u>\$4,721</u>

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The fixed-income available-for-sale securities held at December 31, 2004 have an average maturity range of six to thirteen years. The cost of these securities was determined on the basis of specific identification.

Impairment Evaluation in 2004. At December 31, 2004, Exelon had gross unrealized gains of \$626 million and gross unrealized losses of \$44 million related to the nuclear decommissioning trust fund investments. At December 31, 2003, Exelon had gross unrealized gains of \$394 million and gross unrealized losses of \$300 million related to the nuclear decommissioning trust fund investments. With the exception of the portion of these amounts primarily related to AmerGen, as a result of ComEd's and PECO's regulatory arrangements for decommissioning costs, approximately \$469 million of these net unrealized gains were recorded as an increase to regulatory liabilities.

Exelon evaluates decommissioning trust fund investments for other-than-temporary impairments by analyzing the historical performance, cost basis and market value of securities in unrealized loss positions in comparison to related market indices. During 2004, Exelon concluded that certain trust fund investments were other-than-temporarily impaired based on various factors assessed in the aggregate, including the duration and severity of the impairment, the anticipated recovery of the securities and considerations of Exelon's ability and intent to hold the investments until the recovery of their cost basis. This determination resulted in an \$8 million impairment charge recorded in other income and deductions associated with the trust funds for the decommissioning of the AmerGen plants. Also, Exelon realized \$260 million of the previously unrealized losses associated with the trust investments for the decommissioning of the former ComEd and PECO plants. As both realized and unrealized losses are included as a reduction in the fair value of the investments and in the fair value of the regulatory liability, realization of these losses associated with the former ComEd and PECO plants had no net income impact on Exelon's results of operations or financial position.

Unrealized Gains and Losses. Net unrealized gains of \$582 million were included in regulatory assets, regulatory liabilities or accumulated other comprehensive income in Exelon's Consolidated Balance Sheet at December 31, 2004. Net unrealized gains of \$94 million were included in accumulated depreciation, regulatory assets and accumulated other comprehensive income in Exelon's Consolidated Balance Sheet at December 31, 2003.

The following table provides information regarding Exelon's available-for-sale securities held in nuclear decommissioning trust funds in an unrealized loss position that were not considered other-than-temporarily impaired. The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004 and 2003.

	December 31, 2004					
	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Equity securities	\$16	\$197	\$21	\$278	\$37	\$475
Debt securities						
Government obligations	2	207	2	68	4	275
Other debt securities	2	182	1	22	3	204
Total debt securities	4	389	3	90	7	479
Total temporarily impaired securities	<u>\$20</u>	<u>\$586</u>	<u>\$24</u>	<u>\$368</u>	<u>\$44</u>	<u>\$954</u>

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	December 31, 2003					
	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Equity securities	\$33	\$231	\$261	\$775	\$294	\$1,006
Debt securities						
Government obligations	4	232	—	11	4	243
Other debt securities	2	117	—	2	2	119
Total debt securities	6	349	—	13	6	362
Total temporarily impaired securities	<u>\$39</u>	<u>\$580</u>	<u>\$261</u>	<u>\$788</u>	<u>\$300</u>	<u>\$1,368</u>

Exelon evaluates the historical performance, cost basis and market value of securities in unrealized loss positions in comparison to related market indices to assess whether or not the securities are other-than-temporarily impaired. Exelon concluded that the trending of the related market indices, the historical performance of these securities over a long-term time horizon and the level of insignificance of the unrealized loss as a percentage of the cost of the individual securities indicates that the securities are not other-than-temporarily impaired.

Sale of Nuclear Decommissioning Trust Fund Investments. Proceeds from the sale of decommissioning trust fund investments and gross realized gains and losses on those sales for the years ended December 31, 2004, 2003 and 2002 were as follows:

	For the Years Ended December 31,		
	2004	2003	2002
Proceeds from sales	\$2,320	\$2,341	\$1,612
Gross realized gains	115	219	56
Gross realized losses	(43)	(235)	(86)

Net realized gains of \$72 million and net realized losses of \$16 million and \$32 million were recognized in other income and deductions in Exelon's Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002, respectively. Additionally, net realized gains \$2 million were recognized in accumulated depreciation and regulatory assets in Exelon's Consolidated Balance Sheets at December 31, 2002. Prior to January 1, 2003, realized gains and losses related to the former PECO units were included in accumulated depreciation. See Note 14—Nuclear Decommissioning and Spent Fuel for further information regarding the nuclear decommissioning trusts.

17. Preferred Securities

At December 31, 2004 and 2003, Exelon was authorized to issue up to 100,000,000 shares of preferred stock, none of which was outstanding.

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Preferred and Preference Stock of Subsidiaries

At December 31, 2004 and 2003, cumulative preferred stock of PECO, no par value, consisted of 15,000,000 shares authorized and the outstanding amounts set forth below:

	Current Redemption Price ^(a)	December 31,			
		2004		2003	
		Shares Outstanding	Dollar Amount	Shares Outstanding	Dollar Amount
Series (without mandatory redemption)					
\$4.68 (Series D)	\$104.00	150,000	150,000	\$15	\$15
\$4.40 (Series C)	112.50	274,720	274,720	27	27
\$4.30 (Series B)	102.00	150,000	150,000	15	15
\$3.80 (Series A)	106.00	300,000	300,000	30	30
Total preferred stock		<u>874,720</u>	<u>874,720</u>	<u>\$87</u>	<u>\$87</u>

(a) Redeemable, at the option of PECO, at the indicated dollar amounts per share, plus accrued dividends.

At December 31, 2004 and 2003, ComEd prior preferred stock and ComEd preference stock consisted of 850,000 shares and 6,810,451 shares authorized, respectively, none of which was outstanding.

18. Common Stock

At December 31, 2004 and 2003, common stock without par value consisted of 1,200,000,000 shares authorized and 664,187,996 and 656,365,044 shares outstanding, respectively.

Stock Split

On January 27, 2004, the Board of Directors of Exelon approved a 2-for-1 stock split of Exelon's common stock. The distribution date was May 5, 2004. The share and per-share amounts have been adjusted for all periods presented to reflect the stock split.

Share Repurchases

Share Repurchase Program. In April 2004, Exelon's Board of Directors approved a discretionary share repurchase program that allows Exelon to repurchase shares of its common stock on a periodic basis in the open market. The share repurchase program is intended to mitigate, in part, the dilutive effect of shares issued under Exelon's employee stock option plan and Exelon's Employee Stock Purchase Plan (ESPP). The aggregate value of the shares of common stock repurchased pursuant to the program cannot exceed the economic benefit received after January 1, 2004 due to stock option exercises and share purchases pursuant to Exelon's ESPP. The economic benefit consists of the direct cash proceeds from purchases of stock and the tax benefits associated with exercises of stock options. The share repurchase program has no specified limit on the number of shares that may be repurchased and no specified termination date. Any shares repurchased are held as treasury shares unless cancelled or reissued at the discretion of Exelon's management. Treasury shares are recorded at cost. During 2004, 2.3 million shares of common stock were purchased under the share repurchase program for \$75 million.

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Other Share Repurchases. In November 2004, Exelon repurchased 0.2 million shares of common stock from a retired executive for \$7 million. These shares are held as treasury shares and recorded at cost.

Stock-Based Compensation Plans

Exelon maintains Long-Term Incentive Plans (LTIPs) for certain full-time salaried employees. The types of long-term incentive awards that have been granted under the LTIPs are non-qualified options to purchase shares of Exelon's common stock and common stock awards. At December 31, 2004, there were options for approximately 14,770,078 shares remaining for issuance under the LTIPs.

The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Options granted under the LTIPs become exercisable upon attainment of a target share value and/or specified vesting date. All options expire 10 years from the date of grant. The vesting period of options outstanding as of December 31, 2004 generally ranged from 3 years to 4 years.

Information with respect to the LTIPs at December 31, 2004 and changes for the three years then ended, is as follows:

	Shares 2004	Weighted Average Exercise Price (per share) 2004	Shares 2003	Weighted Average Exercise Price (per share) 2003	Shares 2002	Weighted Average Exercise Price (per share) 2002
Balance at January 1	28,307,386	\$24.51	31,773,980	\$22.90	28,079,992	\$21.98
Options granted/assumed	6,994,288	32.57	6,346,400	24.85	7,877,264	23.56
Options exercised	(9,373,662)	24.20	(9,017,390)	19.03	(3,642,678)	16.69
Options canceled	(722,727)	27.34	(795,604)	25.09	(540,598)	26.81
Balance at December 31	<u>25,205,285</u>	\$26.78	<u>28,307,386</u>	\$24.51	<u>31,773,980</u>	\$22.90
Exercisable at December 31	<u>13,097,192</u>	\$24.88	<u>18,032,696</u>	\$24.33	<u>20,982,368</u>	\$21.98
Weighted average fair value of options granted during year		\$ 9.58		\$ 5.52		\$ 6.81

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 2004, 2003 and 2002, respectively:

	2004	2003	2002
Dividend yield	3.3%	3.3%	3.3%
Expected volatility	19.7%	30.5%	36.8%
Risk-free interest rate	3.25%	3.0%	4.6%
Expected life (years)	5.0	5.0	5.0

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At December 31, 2004, the options outstanding, based on ranges of exercise prices, were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$6.97-\$10.46	49,050	3.0	\$ 9.84	49,050	\$ 9.84
\$10.47-\$13.95	383,064	1.9	12.46	383,064	12.46
\$13.96-\$17.44	114,628	2.3	15.07	114,628	15.07
\$17.45-\$20.93	3,472,093	4.4	19.28	3,472,093	19.28
\$20.94-\$24.42	4,022,670	6.5	23.43	2,373,736	23.41
\$24.43-\$27.91	5,204,363	7.7	24.86	1,293,402	24.91
\$27.92-\$31.40	4,545,548	5.7	29.74	4,531,898	29.74
\$31.41-\$34.90	7,413,869	8.6	32.66	879,321	33.37
Total	<u>25,205,285</u>	6.8	\$26.78	<u>13,097,192</u>	\$24.88

Exelon common share awards of 1,813,874, 901,958 and 1,180,148 shares were granted under Exelon's LTIPs and board compensation plans during 2004, 2003 and 2002, respectively. Compensation costs related to these awards are accrued and expensed over the vesting period, typically up to 5 years from the grant date. Exelon recognized stock-based compensation expense of \$65 million, \$31 million and \$20 million during 2004, 2003 and 2002, respectively. At December 31, 2004, Exelon had a liability of \$81 million related to outstanding awards not yet settled through cash payments or share issuances.

In June 2001, the Board of Directors of Exelon approved the ESPP. The purpose of the ESPP is to provide employees of Exelon and its subsidiary companies the right to purchase shares of Exelon's common stock at below-market prices. A total of 5,357,745 shares of Exelon's common stock have been reserved for issuance under the ESPP. Employees' purchases are limited to no more than 155 shares per quarter and no more than \$25,000 in fair market value in any plan year. Employees purchased 309,492, 418,652, and 514,910 shares of Exelon common stock under the ESPP in 2004, 2003 and 2002, respectively.

Fund Transfer Restrictions

Under applicable law, Exelon is precluded from borrowing or receiving any extension of credit or indemnity from its subsidiaries and can lend to, but not borrow from, Exelon's intercompany money pool. Additionally, under applicable Federal law, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, "its earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless it has specific authorization from the ICC. At December 31, 2004 and 2003, Exelon had retained earnings of \$3.4 billion and \$2.3 billion, respectively, which included ComEd retained earnings of \$1,102 million and \$883 million (all which has been appropriated for future dividends at December 31, 2004), PECO retained earnings of \$607 million and \$546 million, and Generation undistributed earnings of \$761 million and \$602 million, respectively. At December 31, 2004 and 2003, Exelon's common equity to total capitalization ratio was 41% and 35%, respectively.

Undistributed Losses of Equity Method Investments

Exelon had undistributed losses of equity method investments of \$106 million and \$55 million at December 31, 2004 and 2003, respectively.

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19. Earnings Per Share

Diluted earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options outstanding under Exelon's stock option plans considered to be common stock equivalents. The following table sets forth the computation of basic and diluted earnings per share and shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income before cumulative effect of changes in accounting principles	\$1,841	\$ 793	\$1,670
Cumulative effect of changes in accounting principles	23	112	(230)
Net income	<u>\$1,864</u>	<u>\$ 905</u>	<u>\$1,440</u>
Average common shares outstanding—basic	661	651	645
Assumed exercise of stock options	8	6	4
Average common shares outstanding—diluted	<u>669</u>	<u>657</u>	<u>649</u>
Earnings per average common share—Basic:			
Income before cumulative effect of changes in accounting principles	\$ 2.79	\$ 1.22	\$ 2.59
Cumulative effect of changes in accounting principles	0.03	0.17	(0.36)
Net income	<u>\$ 2.82</u>	<u>\$ 1.39</u>	<u>\$ 2.23</u>
Earnings per average common share—Diluted:			
Income before cumulative effect of changes in accounting principles	\$ 2.75	\$ 1.21	\$ 2.57
Cumulative effect of changes in accounting principles	0.03	0.17	(0.35)
Net income	<u>\$ 2.78</u>	<u>\$ 1.38</u>	<u>\$ 2.22</u>

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately nine million and ten million for 2003 and 2002, respectively. There were no stock options excluded for 2004.

20. Commitments and Contingencies

Nuclear Insurance

The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of December 31, 2004, the limit is \$10.76 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. Through its subsidiaries, Exelon carries the maximum available commercial insurance of \$300 million for each operating site and the remaining \$10.46 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed a maximum charge per reactor per incident. The maximum assessment for all nuclear operators per reactor per incident (including a 5% surcharge) is \$100.6 million, 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 Price-Anderson Act expired on August 1, 2002 and was subsequently extended to the

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end of 2003 by the U.S. Congress. Only facilities applying for NRC licenses subsequent to the expiration of the Price-Anderson Act are affected. Existing commercial generating facilities, such as those owned by Generation, remain subject to the provisions of the Price-Anderson Act and are unaffected by its expiration. However, new licenses are not covered under the Price-Anderson Act and any new plant initiatives would need to address this exposure.

Generation is a member of an industry mutual insurance company, Nuclear Electric Insurance Limited (NEIL), which provides property damage, decontamination and premature decommissioning insurance for each station for losses 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 Generation is required by the NRC to maintain, to provide for decommissioning the facility. Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. Under the terms of the various insurance agreements, Generation could be assessed up to \$168 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of \$3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity, and any other source, applicable to such losses. The \$3.2 billion maximum recovery limit is not applicable, however, in the event of a "certified act of terrorism" as defined in the Terrorism Risk Insurance Act of 2002, as a result of government indemnity. Generally, a "certified act of terrorism" is defined in the Terrorism Risk Insurance Act to be any act, certified by the U.S. government, to be an act of terrorism committed on behalf of a foreign person or interest.

Additionally, NEIL 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. Generation's maximum share of any assessment is \$48 million per year. Recovery under this insurance for terrorist acts is subject to the \$3.2 billion aggregate limit and secondary to the property insurance described above. This limit would also not apply in cases of certified acts of terrorism under the Terrorism Risk Insurance Act as described above.

In addition, Generation participates in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear-related employment" began on or after the commencement date of reactor operations. Generation will not be liable for a retrospective assessment under this new policy; however, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to \$50 million could apply.

For its insured losses, Exelon is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon's financial condition, results of operations and liquidity.

Energy Commitments

Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long-, intermediate- and short-term contracts. Generation

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maintains a net positive supply of energy and capacity, through ownership of 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. Generation has also contracted for access to additional generation through bilateral long-term purchase power agreements (PPAs). These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature. Generation enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. Generation 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 primary intent and business objective for the use of its capital assets and contracts is to provide Generation with physical power supply to enable it to deliver energy to meet customer needs. Generation primarily uses financial contracts in its wholesale marketing activities for hedging purposes. Generation also uses financial contracts to manage the risk surrounding trading for profit activities.

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

At December 31, 2004, Generation had long-term commitments, relating to the purchase from and sale to unaffiliated utilities and others of energy, capacity and transmission rights as indicated in the following tables:

	<u>Net Capacity Purchases</u> ^(a)	<u>Power Only Sales</u>	<u>Power Only Purchases</u>	<u>Transmission Rights Purchases</u> ^(b)
2005	\$ 578	\$2,551	\$1,446	\$ 31
2006	581	961	605	3
2007	533	167	254	—
2008	462	9	195	—
2009	437	9	194	—
Thereafter	3,664	343	548	—
Total ^(c)	<u>\$6,255</u>	<u>\$4,040</u>	<u>\$3,242</u>	<u>\$ 34</u>

- (a) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2004. Expected payments include certain capacity charges which are contingent on plant availability.
- (b) Transmission rights purchases include estimated commitments in 2005 and 2006 for additional transmission rights that will be required to fulfill firm sales contracts.
- (c) Included in the totals are \$395 million of power only sales commitments related to Sithe, which were not retained by Generation following the sale of Sithe. See Note 3 – Sithe and Note 25 – Subsequent Events for further discussion of these transactions.

Generation has a PPA with ComEd under which Generation has agreed to supply all of ComEd's load requirements through 2006. Prices for this energy vary depending upon the time of day and month of delivery. Subsequent to 2006, ComEd expects to procure all of its supply from market sources, which could include Generation. Additionally, Generation has entered into a PPA with PECO under which PECO obtains substantially all of its electric supply from Generation through 2010. Prices for this

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energy vary depending upon month of delivery. Subsequent to 2010, PECO expects to procure all of its supply from market sources, which could include Generation.

Other Purchase Obligations

In addition to Generation's energy commitments as described above, Exelon has commitments to purchase fuel supplies for nuclear generation and various other purchase commitments related to the normal day-to-day operations of its business. As of December 31, 2004, these commitments were as follows:

	Total	Expiration within			
		2005	2006-2007	2008-2009	2010 and beyond
Fuel purchase agreements ^(a)	\$3,639	\$639	\$985	\$616	\$1,399
Other purchase commitments ^(b)	463	241	134	57	31

(a) Fuel purchase agreements – Commitments to purchase fuel supplies for nuclear and fossil generation.

(b) Other purchase commitments – Commitments for services and materials, minimum spend requirements related to the sale of InfraSource (see Note 2 – Acquisitions and Dispositions) and amounts committed for information technology services.

Commercial Commitments

Exelon's commercial commitments as of December 31, 2004, representing commitments potentially triggered by future events, were as follows:

	Total	Expiration within			
		2005	2006-2007	2008-2009	2010 and beyond
Letters of credit (non-debt) ^(a)	\$ 240	\$239	\$ 1	\$ —	\$ —
Letters of credit (long-term debt)—interest coverage ^(b)	15	15	—	—	—
Surety bonds ^(c)	458	84	4	—	370
Performance guarantees ^(d)	201	—	—	—	201
Energy marketing contract guarantees ^(e)	261	156	65	—	40
Nuclear insurance guarantees ^(f)	1,710	—	—	—	1,710
Lease guarantees ^(g)	10	—	1	—	9
Midwest Generation Capacity Reservation Agreement guarantee ^(h)	29	4	7	8	10
Exelon New England guarantees ⁽ⁱ⁾	17	—	—	—	17
Total commercial commitments	\$2,941	\$498	\$ 78	\$ 8	\$2,357

(a) Letters of credit (non-debt) – Exelon and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties. As of December 31, 2004, Exelon had \$240 million of outstanding letters of credit (non-debt) issued under its \$1.5 billion credit agreements. Guarantees of \$67 million have been issued to provide support for certain letters of credit as required by third parties. Includes letters of credit of \$95 million that will be eliminated upon sale of Sithe to Dynegy. See Note 25—Subsequent Events for further information regarding the sale of Sithe.

(b) Letters of credit (long-term debt) interest coverage – Reflects the interest coverage portion of letters of credit supporting floating-rate pollution control bonds. The principal amount of the floating-rate pollution control bonds of \$520 million is reflected in long-term debt in Exelon's Consolidated Balance Sheet.

(c) Surety bonds – Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

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- (d) Performance guarantees – Guarantees issued to ensure execution under specific contracts.
- (e) Energy marketing contract guarantees – Guarantees issued to ensure performance under energy commodity contracts. Includes guarantees of \$30 million that will be eliminated upon the sale of Sithe to Dynegy. See Note 25—Subsequent Events for further information regarding the sale of Sithe.
- (f) Nuclear insurance guarantees – Guarantees of nuclear insurance required under the Price-Anderson Act. \$1.0 billion of this total exposure is exempt from the \$6.0 billion PUHCA guarantee limit by SEC rule.
- (g) Lease guarantees – Guarantees issued to ensure payments on building leases.
- (h) Midwest Generation Capacity Reservation Agreement guarantee – In connection with ComEd's agreement with the City of Chicago (Chicago) entered into on February 20, 2003, Midwest Generation assumed from Chicago a Capacity Reservation Agreement that Chicago had entered into with Calumet Energy Team, LLC. ComEd has agreed to reimburse Chicago for any nonperformance by Midwest Generation under the Capacity Reservation Agreement. Under FIN 45, \$3 million is included as a liability on Exelon's Consolidated Balance Sheets at December 31, 2004.
- (i) Exelon New England guarantees – Mystic Development LLC (Mystic), a former affiliate of Exelon New England, has a long-term agreement through January 2020 with Distrigas of Massachusetts Corporation (Distrigas) for gas supply, primarily for the Boston Generating units. Under the agreement, gas purchase prices from Distrigas are indexed to the New England gas markets. Exelon New England has guaranteed Mystic's financial obligations to Distrigas under the long-term supply agreement. Exelon New England's guarantee to Distrigas remained in effect following the transfer of ownership interest in Boston Generating in May 2004. Under FIN 45, approximately \$16 million is included as a liability within the Consolidated Balance Sheet of Exelon as of December 31, 2004 related to this guarantee. The terms of the guarantee do not limit the potential future payments that Exelon New England could be required to make under the guarantee. Other guarantees associated with Exelon New England total less than \$1 million.

Environmental Issues

General. Exelon's operations have in the past and may in the future require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, Exelon, through its subsidiaries, is generally liable for the costs of remediating environmental contamination of property now or formerly owned by Exelon and of property contaminated by hazardous substances generated by Exelon. Exelon's subsidiaries own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. Exelon has identified 69 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. Of these 69 sites, the Illinois Environmental Protection Agency has approved the clean up of four sites and the Pennsylvania Department of Environmental Protection has approved the cleanup of nine sites, and of the remaining sites, 56 are currently under some degree of active study and/or remediation. In addition, Exelon's subsidiaries are 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.

As of December 31, 2004 and 2003, Exelon had accrued \$124 million and \$129 million, respectively, for environmental investigation and remediation costs, including \$96 million and \$105 million, respectively, for MGP investigation and remediation that currently can be reasonably estimated. Included in the environmental investigation and remediation cost obligations as of December 31, 2004 and 2003 are \$96 million and \$105 million, respectively, that have been recorded on a discounted basis (reflecting discount rates of 4.3% in 2004 and from 5.0% in 2003). Such estimates before the effects of discounting were \$109 million and \$138 million at December 31, 2004 and 2003, respectively (reflecting inflation rates of 2.3% in 2004 and 2.5% in 2003). Exelon cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by Exelon, environmental agencies or others, or whether such costs will be recoverable from third parties, including ratepayers. However, PECO is currently recovering through regulated gas rates costs associated with the remediation of the MGP sites.

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As of December 31, 2004, Exelon anticipates that payments related to the discounted environmental investigation and remediation costs, disclosed below on an undiscounted basis, will be:

2005	\$ 16
2006	21
2007	17
2008	14
2009	7
Remaining years	<u>34</u>
Total payments	<u>\$109</u>

In December 2003, PECO updated its accounting estimate related to the reserve for environmental remediation. Based on an update of an independently prepared environmental remediation study on 27 MGP sites, PECO increased the environmental reserve by \$18 million, with an offsetting increase to the MGP regulatory asset. See Note 21—Supplemental Financial Information for further discussion of the MGP regulatory asset.

Section 316(b) of the Clean Water Act. In July 2004, the EPA issued the final Phase II rule implementing Section 316(b) of the Clean Water Act. This rule establishes national requirements for reducing the adverse environmental impacts from the entrainment and impingement of aquatic organisms at existing power plants. The rule identifies particular standards of performance with respect to entrainment and impingement and requires each facility to monitor and validate this performance in future years. The requirements will be implemented through state-level National Pollutant Discharge Elimination System (NPDES) permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems are potentially most affected. Those facilities are Clinton, Cromby, Dresden, Eddystone, Fairless Hills, Handley, Mountain Creek, New Boston, Oyster Creek, Peach Bottom, Quad Cities, and Salem. Generation is currently evaluating compliance options at its affected plants. At this time, Generation cannot estimate the effect that compliance with the Phase II rule requirements will have on the operation of its generating facilities and its future results of operations, financial condition and cash flows. There are many factors to be considered and evaluated to determine how Generation will comply with the Phase II rule requirements and the extent to which such compliance may result in financial and operational impacts. The considerations and evaluations include, but are not limited to obtaining clarifying interpretations of the requirements from state regulators, resolving outstanding litigation proceedings concerning the requirements, completing studies to establish biological baselines for each facility, and performing environmental and economic cost benefit evaluation of the potential compliance alternatives in accordance with the requirements.

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of any liability arising in connection with the West Lake Landfill. In connection with Exelon's 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. Cotter is alleged to have disposed of approximately 39,000 tons of soils mixed with 8,700 tons of leached barium sulfate at the site. Cotter, along with three other companies identified by the EPA as potentially responsible parties (PRPs), has submitted a draft feasibility study addressing options for remediation of

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the site. The PRPs are also engaged in discussions with the State of Missouri and the EPA. The estimated costs of the anticipated remediation strategy for the site range up to \$22 million. Once a remedy is selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Generation has accrued what it believes to be an adequate amount to cover its anticipated share of the liability.

Leases

Minimum future operating lease payments, including lease payments for vehicles, real estate, computers, rail cars and office equipment, as of December 31, 2004 were:

2005	\$ 73
2006	71
2007	63
2008	59
2009	55
Remaining years	<u>588</u>
Total minimum future lease payments ^(a)	<u>\$909</u>

(a) Generation's tolling agreements are accounted for as operating leases and are reflected as net capacity purchases in the energy commitments table above.

Rental expense under operating leases totaled \$64 million, \$57 million and \$85 million in 2004, 2003, and 2002, respectively.

For information regarding Exelon's capital lease obligations, see Note 12—Long Term Debt.

Litigation

Retail Rate Law. In 1996, three developers of non-utility generating facilities filed litigation against various Illinois officials claiming that the enforcement against those facilities of an amendment to Illinois law removing the entitlement of those facilities to state-subsidized payments for electricity sold to ComEd after March 15, 1996 violated their rights under Federal and state constitutions. The developers also filed suit against ComEd for a declaratory judgment that their rights under their contracts with ComEd were not affected by the amendment and for breach of contract. On November 25, 2002, the court granted the developers' motions for summary judgment. The judge also entered a permanent injunction enjoining ComEd from refusing to pay the retail rate on the grounds of the amendment and Illinois from denying ComEd a tax credit on account of such purchases. On March 9, 2004, the Illinois Appellate Court reversed the trial court. The Appellate Court held that the 1996 law does apply to the developers' facilities and, therefore, they are not entitled to subsidized payments. The Court expressly ruled that the breach of contract claims against ComEd are dismissed with prejudice. Two of the developers sought review of the Appellate Court's decision by the Illinois Supreme Court. On May 26, 2004, the Supreme Court declined to hear the earlier-filed of the two appeals. On October 6, 2004, the Supreme Court declined to hear the final appeal. The time for further appeals has now passed. Related claims remain pending in the trial court.

Real Estate Tax Appeals. PECO and Generation each have been challenging real estate taxes assessed on nuclear plants. PECO is involved in litigation in which it is contesting taxes assessed in 1997 under the Pennsylvania Public Utility Realty Tax Act of March 4, 1971, as amended (PURTA),

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and has appealed local real estate assessments for 1998 and 1999 on the Limerick Generating Station (Montgomery County, PA) (Limerick) and Peach Bottom Atomic Power Station (York County, PA) (Peach Bottom) plants. Generation is involved in real estate tax appeals for 2000 through 2004, also regarding the valuation of its Limerick and Peach Bottom plants, Quad Cities Station (Rock Island County, IL), Three Mile Island Nuclear Station (Dauphin County, PA) and Oyster Creek Nuclear Generating Station (Forked River, NJ).

During 2003, upon completion of updated nuclear plant appraisal studies, Exelon recorded reductions of \$74 million to reserves recorded for exposures associated with the real estate taxes. Exelon believes its reserve balances for exposures associated with the real estate taxes as of December 31, 2004 reflect the probable expected outcome of the litigation and appeals proceedings in accordance with SFAS No. 5, "Accounting for Contingencies." The ultimate outcome of such matters, however, could result in unfavorable or favorable adjustments to the consolidated financial statements of Exelon and such adjustments could be material.

General. Exelon is involved in various other litigation matters that are being defended and handled in the ordinary course of business. Exelon maintains accruals for such costs that are probable of being incurred and subject to reasonable estimation. The ultimate outcomes of such matters, as well as the matters discussed above, are uncertain and may have a material adverse effect on Exelon's financial condition, results of operations or cash flows.

Capital Commitments

SCEP. Generation has a 71% interest in SCEP, which owns a peaking facility in Chicago. SCEP is obligated to make total equity distributions of \$49 million through 2022 to the party, which is not affiliated with Exelon, that owns the remaining 29% interest. This amount reflects a return of that party's investment in SCEP. Generation has the right to purchase, generally at a premium, and the other party has the right to require Generation to purchase, generally at a discount, the 29% interest in SCEP. Additionally, Generation may be required to purchase the remaining 29% interest upon the occurrence of certain events, including Generation's failure to maintain an investment grade rating. As a result of the adoption of SFAS No. 150 on July 1, 2003, Exelon reclassified the minority interest associated with SCEP to a long-term liability. The total long-term liability related to SCEP was \$49 million and \$51 million as of December 31, 2004 and 2003, respectively.

Sithe Call Option. On September 29, 2004, Generation exercised its call option and entered into an agreement to acquire Reservoir's 50% interest in Sithe for \$97 million. The closing of the call required state and Federal regulatory approvals, which were received in January 2005, and the transaction was completed on January 31, 2005. See Note 3—Sithe and Note 25—Subsequent Events for additional information.

Credit Contingencies

Dynegy. As previously disclosed, Generation is counterparty to Dynegy in various energy transactions and had financial and credit risk associated with Dynegy through Generation's investment in Sithe at December 31, 2004. On January 31, 2005, Generation sold its investment in Sithe and, accordingly, is no longer subject to potential financial risk associated with Dynegy's performance under the financial swap arrangement that Dynegy had with Sithe. See Note 25—Subsequent Events for further discussion of Generation's sale of Sithe.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Income Taxes

Refund Claims. ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. ComEd and PECO previously made refundable prepayments to the tax consultants of \$11 million and \$5 million, respectively. The fees for these agreements are contingent upon a successful outcome of the claims and are based upon a percentage of the refunds recovered from the IRS, if any. The ultimate net cash outflows to ComEd and PECO related to these agreements will either be positive or neutral depending upon the outcome of the refund claim with the IRS. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. A portion of ComEd's tax benefits, including any associated interest for periods prior to the PECO / Unicom Merger, would be recorded as a reduction of goodwill pursuant to a reallocation of the PECO / Unicom Merger purchase price. Exelon cannot predict the timing of the final resolution of these refund claims.

In 2004, the IRS granted preliminary approval for one of ComEd's refund claims. As such, ComEd believes that it is probable that a fee will ultimately be paid to the tax consultant. Therefore, ComEd recorded an expense of \$5 million (pre-tax), which resulted in a decrease to the prepayment from \$11 million to \$6 million. The charge represents an estimate of the fee to the tax consultant which may be adjusted upward or downward depending on the IRS' final calculation of the tax and interest benefit. As of December 31, 2004, ComEd had not reflected the tax benefit associated with the refund claim pending final approval of the IRS; however, as described above, the net income statement impact for ComEd is anticipated to be neutral or positive.

See Note 25—Subsequent Events for information regarding the final approval of ComEd's refund claim.

Other. Exelon, through its ComEd subsidiary, has taken certain tax positions, which have been disclosed to the IRS to defer the tax gain on the 1999 sale of its fossil generating assets. See Note 13—Income Taxes for further information.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

21. Supplemental Financial Information

Supplemental Income Statement Information

The following tables provide additional information about Exelon's Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002.

	For the Years Ended December 31,		
	2004	2003	2002
Depreciation, amortization and accretion			
Property, plant and equipment ^(a)	\$ 835	\$ 736	\$ 729
Regulatory assets	418	386	472
Nuclear fuel ^(b)	380	395	374
Asset retirement obligation accretion ^(c)	210	160	126
Amortization of intangible assets ^(d)	90	4	—
Total depreciation, amortization and accretion	\$1,933	\$1,681	\$1,701

(a) Includes amortization of capitalized software costs.

(b) Included in fuel expense in the Consolidated Statements of Income.

(c) Prior to the adoption of SFAS No. 143 on January 1, 2003, these amounts were recorded in depreciation expense. Upon adoption of SFAS No. 143, these amounts were recorded in operating and maintenance expense in Exelon's Consolidated Statements of Income. See Note 14—Nuclear Decommissioning and Spent Fuel Storage for further discussion of the adoption of SFAS No. 143.

(d) \$38 million was reflected as a reduction in revenues in the Consolidated Statements of Income, of which \$32 million related to the amortization of Sithe assets. See Note 3—Sithe and Note 25—Subsequent Events for a description of Sithe's intangible assets that are reflected in Exelon's Consolidated Balance Sheets at December 31, 2004 and a description of the sale of Sithe that was completed on January 31, 2005.

	For the Years Ended December 31,		
	2004	2003	2002
Income (loss) in equity method investments			
Financing trusts of ComEd and PECO ^(a)	\$ (44)	\$ —	\$ —
AmerGen ^(b)	—	47	64
Sithe ^(c)	(11)	2	23
Synfuel	(84)	—	—
Affordable housing projects ^(d)	(9)	(10)	(10)
Communications joint ventures and other investments	(5)	(6)	3
Total	\$(153)	\$ 33	\$ 80

(a) Financing trusts were deconsolidated as of December 31, 2003.

(b) Prior to the acquisition of British Energy's 50% interest in December 2003.

(c) Includes losses incurred prior to Sithe's consolidation as of March 31, 2004 and losses from Sithe's investments in TEG and TEP prior to their sale in October 2004. See Note 3—Sithe for additional information.

(d) Prior to the sale of investments on October 15, 2004 and November 12, 2004.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the Years Ended December 31,		
	2004	2003	2002
Taxes other than income			
Utility ^(a)	\$439	\$440	\$439
Real estate	151	65 ^(b)	149
Payroll	100	92	98
Other	29	(16) ^(c)	23
Total	<u>\$719</u>	<u>\$581</u>	<u>\$709</u>

- (a) Municipal and state utility taxes are also recorded in revenues on Exelon's Consolidated Statements of Income.
(b) Includes the reduction of \$74 million of property tax accruals during 2003 as described in Note 20—Commitments and Contingencies.
(c) Includes a credit of \$25 million in 2003 due to a favorable settlement of coal use tax issues at ComEd related to periods prior to the PECO / Unicom Merger.

	For the Years Ended December 31,		
	2004	2003	2002
Other, net			
Investment income	\$ 14	\$ 21	\$ 33
Net loss on early extinguishment of debt	(130)	—	—
Gain (loss) on disposition of assets, net ^(a)	167	(3)	201
Decommissioning-related activities			
Decommissioning trust fund income ^(b)	194	79	77
Decommissioning trust fund income—AmerGen ^(b)	43	—	—
Other-than-temporary impairment of decommissioning trust funds ^(c)	(268)	—	—
Regulatory offset to non-operating decommissioning—related activities ^(d)	66	(79)	—
Interest associated with Federal income taxes	—	(14)	—
Impairment of investment in Sithe	—	(255)	—
Impairment of investments and other assets	(19)	(38)	(47)
Net direct financing lease income	21	20	18
Gain on settlement of note receivable ^(e)	18	—	—
AFUDC	4	9	19 ^(f)
Reserve for potential plant disallowance	—	12	(12)
Other	30	(13)	15
Total	<u>\$ 140</u>	<u>\$(261)</u>	<u>\$304</u>

- (a) See Note 2—Acquisitions and Dispositions for further discussion.
(b) Includes investment income and realized gains (losses).
(c) Includes other-than-temporary impairments totaling \$255 million, \$5 million and \$8 million on nuclear decommissioning trust funds for the former ComEd units, the former PECO units and the AmerGen units, respectively.
(d) Includes the elimination of non-operating decommissioning-related activity for those units that are subject to regulatory accounting, including the elimination of decommissioning trust fund income and other-than-temporary impairments for certain nuclear units. See Note 14—Nuclear Decommissioning and Spent Fuel Storage and Note 16—Fair Value of Financial Assets and Liabilities for more information regarding the regulatory accounting applied for certain nuclear units.
(e) Reflects the collection of a note related to the sale of Infrasource. See Note 2—Acquisitions and Dispositions for further information.
(f) In 2002, the debt portion of AFUDC of \$8 million was recorded as a non-cash credit to other, net. Subsequent to 2002, the debt portion of AFUDC was recorded as a non-cash credit to interest expense.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Supplemental Cash Flow Information

The following table provides additional information about Exelon's Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.

	For the Years Ended December 31,		
	2004	2003	2002
Cash paid during the year			
Interest (net of amount capitalized)	\$888	\$801	\$905
Income taxes (net of refunds)	205	728	614
Non-cash investing and financing activities			
Increase in asset retirement cost	829	—	—
Disposition of Boston Generating ^(a)	102	—	—
Note cancelled in conjunction with the acquisition of Sithe International from Sithe	92	—	—
Consolidation of Sithe pursuant to FIN 46-R	85	—	—
Purchase accounting estimate adjustments	36	59	—
Non-cash issuance of common stock	26	16	3
Issuance of note payable to acquire synthetic fuel interests	22	238	—
Resolution of certain tax matters and PECO / Unicom Merger severance adjustment	14	—	14
Capital lease obligations	1	—	52
Note received in connection with the sale of Sithe to Reservoir	—	92	—
Note issued to Sithe in the Exelon New England acquisition	—	2	534
Contribution of land from minority interest of consolidated subsidiary	—	—	12

(a) See Note 2 – Acquisitions and Dispositions for additional information regarding the disposition of Boston Generating.

Supplemental Balance Sheet Information

The following tables provide additional information about assets recorded within Exelon's Consolidated Balance Sheets as of December 31, 2004 and 2003.

December 31, 2004	Energy Delivery	Generation	Enterprises	Exelon
Investments				
Equity method investments:				
Direct financing leases	\$—	\$—	\$—	\$486
Financing trusts ^(a)	139	—	—	139
TEG and TEP ^(b)	—	79	—	79
Energy services and other ventures	2	10	2	14
Total equity method investments	141	89	2	718
Other investments:				
Employee benefit trusts and investments	59	14	2	85
Energy services and other ventures	—	—	1	1
Total other investments	59	14	3	86
Total investments	\$200	\$103	\$ 5	\$804

(a) Includes investments in financing trusts which were not consolidated within the financial statements of Exelon at December 31, 2004 pursuant to the provisions of FIN 46-R. See Note 1- Significant Accounting Policies for further discussion of the effects of FIN 46-R.

(b) Generation acquired 49.5% interests in two facilities in Mexico on October 13, 2004. See Note 3–Sithe for further information on this transaction.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

<u>December 31, 2003</u>	<u>Energy Delivery</u>	<u>Generation</u>	<u>Enterprises</u>	<u>Exelon</u>
Investments				
Equity method investments:				
Direct financing leases	\$ —	\$ —	\$ —	\$465
Financing trusts ^(a)	196	—	—	196
Affordable housing projects	—	—	—	77
Investment in EXRES SHC, Inc. ^(b)	—	47	—	47
Energy services and other ventures	2	11	30	44
Communications ventures	1	—	28	29
Total equity method investments	<u>199</u>	<u>58</u>	<u>58</u>	<u>858</u>
Other investments:				
Employee benefit trusts and investments	53	7	—	72
Energy services and other ventures	—	—	25	25
Total other investments	<u>53</u>	<u>7</u>	<u>25</u>	<u>97</u>
Total investments	<u>\$252</u>	<u>\$ 65</u>	<u>\$ 83</u>	<u>\$955</u>

(a) Includes investments in financing trusts which were not consolidated within the financial statements of Exelon at December 31, 2004 pursuant to the provisions of FIN 46-R. See Note 1- Significant Accounting Policies for further discussion of the effects of FIN 46-R.

(b) On November 25, 2003, Generation, Reservoir and Sithe completed a series of transactions that restructured the ownership of Sithe, with Generation continuing to own a 50% interest in Sithe through EXRES SHC, Inc. See Note 3—Sithe and Note 25—Subsequent Events for further information on these transactions and the sale of Sithe in 2005.

Like-Kind Exchange Transaction. Prior to the PECO / Unicom Merger, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon, entered into a like-kind exchange transaction pursuant to which approximately \$1.6 billion was invested in passive generating station leases with two separate entities unrelated to Exelon. The generating stations were leased back to such entities as part of the transaction. For financial accounting purposes, the investments are accounted for as direct financing lease investments. UII holds the leasehold interests in the generating stations in several separate bankruptcy remote, special purpose companies it directly or indirectly wholly owns. Under the terms of the lease agreements, UII received a prepayment of \$1.2 billion in the fourth quarter of 2000, which reduced the investment in the lease. The remaining payments are payable at the end of the thirty-year lease and there are no minimum scheduled lease payments to be received over the next five years. The components of the net investment in the direct financing leases were as follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Total minimum lease payments	\$1,492	\$1,492
Less: unearned income	1,006	1,027
Net investment in direct financing leases	<u>\$ 486</u>	<u>\$ 465</u>

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Other deferred debits and other assets		
Intangible assets ^(a)	\$ 804	\$429
Long-term prepaid state income taxes ^(b)	201	208
Long-term emission allowances	82	81
Chicago agreement ^(c)	59	63
Chicago arbitration settlement ^(d)	55	59
Other	217	151
Total	<u>\$1,418</u>	<u>\$991</u>

(a) See Note 9—Intangible Assets for further information.

(b) Long-term prepaid state income taxes relate to ComEd's overpayment of state income taxes. The overpayment will be applied towards future state income tax payments.

(c) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation. Under the terms of the agreement with Chicago, ComEd will pay Chicago and other parties a total of \$63 million over ten years and be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility. These payments were deferred and are amortized ratably over the life of the franchise agreement with Chicago through 2020.

(d) On March 22, 1999, ComEd reached a settlement agreement with Chicago to end the arbitration proceeding between ComEd and Chicago regarding the January 1, 1992 franchise agreement and a supplement agreement. As part of the settlement agreement, ComEd paid \$25 million each year from 1999 to 2002 to help ensure an adequate and reliable electric supply for Chicago. These payments were deferred and are amortized ratably over the life of the franchise agreement with Chicago through 2020.

The following tables provide information about the regulatory assets and liabilities of ComEd and PECO as of December 31, 2004 and 2003.

	<u>December 31,</u>	
<u>ComEd</u>	<u>2004</u>	<u>2003</u>
Regulatory assets (liabilities)		
Nuclear decommissioning	\$(1,433)	\$(1,183)
Removal costs	(1,011)	(973)
Reacquired debt costs and interest-rate swap settlements	118	172
Recoverable transition costs	87	131
Deferred income taxes	4	(61)
Other	31	23
Total	<u>\$(2,204)</u>	<u>\$(1,891)</u>

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

<u>PECO</u>	December 31,	
	2004	2003
Regulatory assets (liabilities)		
Competitive transition charges	\$3,936	\$4,303
Deferred income taxes	747	762
Non-pension postretirement benefits	52	58
Reacquired debt costs	42	49
MGP regulatory asset	32	34
DOE facility decommissioning	19	26
Nuclear decommissioning	(46)	(12)
Other	8	6
	4,790	5,226
Long-term regulatory assets		
Deferred energy costs (current asset)	71	81
	4,861	5,307
Total	\$4,861	\$5,307

Nuclear decommissioning. These amounts represent future nuclear decommissioning costs that exceed (regulatory asset) or are less than (regulatory liability) the associated decommissioning trust fund assets. Exelon believes the trust fund assets, including prospective earnings thereon and any future collections from ratepayers, will equal the associated future decommissioning costs at the time of decommissioning. See Note 14—Nuclear Decommissioning and Spent Fuel Storage.

Removal costs. These amounts represent funds received from ratepayers to cover the future removal of property, plant and equipment. See Note 7—Property, Plant and Equipment for further information.

Reacquired debt costs and interest-rate swap settlements. The reacquired debt costs represent premiums paid for the early extinguishment and refinancing of long-term debt, which is amortized over the life of the new debt issued to finance the debt redemption. Interest-rate swap settlements are deferred and amortized over the period that the related debt is outstanding.

Recoverable transition costs. These charges, related to amounts that would have been unrecoverable but for the recovery mechanism, such as the CTC allowed under the Illinois restructuring act, are amortized based on the expected return on equity of ComEd in any given year. ComEd expects to fully recover and amortize these charges by the end of 2006, but may increase or decrease its annual amortization to maintain its earnings within the earnings cap provisions established by Illinois legislation. See Note 5—Regulatory Issues for discussion of recoverable transition cost amortization.

Deferred income taxes. These costs represent the difference between the method by which the regulator allows for the recovery of income taxes and how income taxes would be recorded by unregulated entities. Regulatory assets and liabilities associated with deferred income taxes, recorded in compliance with SFAS No. 71 and SFAS No. 109, include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the rate-making policies of the ICC and PUC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates. See Note 13—Income Taxes.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

Competitive transition charges. These charges represent PECO's stranded costs that the PUC determined would be recoverable through regulated rates. These costs are related to the deregulation of the generation portion of the electric utility business in Pennsylvania. The CTC includes intangible transition property sold to PETT, an unconsolidated subsidiary of PECO, in connection with the securitization of PECO's stranded cost recovery. These charges are being amortized through December 31, 2010 with a return on the unamortized balance of 10.75%.

Non-pension postretirement benefits. These costs are the result of transitioning to SFAS No. 106 in 1993, which are recoverable in rates through 2012.

MGP regulatory asset. These costs represent estimated MGP-related environmental remediation costs at PECO which are recoverable through regulated gas rates.

DOE facility decommissioning. These costs represent PECO's share of recoverable decommissioning and decontamination costs of the DOE nuclear fuel enrichment facilities established by the National Energy Policy Act of 1992.

Deferred energy costs (current asset). These costs represent fuel costs recoverable under the purchase gas adjustment clause.

Recovery of regulatory assets. The regulatory assets related to deferred income taxes and non-pension post retirement benefits did not require a cash outlay of investor supplied funds; consequently, these costs are not earning a rate of return. Recovery of the regulatory assets for loss on reacquired debt, recoverable transition costs, MGP remediation costs and deferred energy costs is provided for through regulated revenue sources. Therefore, these costs are earning a rate of return.

The following tables provide additional information about liabilities recorded within Exelon's Consolidated Balance Sheets as of December 31, 2004 and 2003.

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Accrued expenses		
Compensation-related accruals ^(a)	\$ 346	\$ 329
Taxes accrued	312	336
Interest accrued	252	247
Severance accrued	69	139
Other accrued expenses	164	209
Total	<u>\$1,143</u>	<u>\$1,260</u>

(a) Primarily includes accrued payroll, bonuses and other incentives, vacation and benefits.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following tables provide additional information about accumulated other comprehensive income recorded within Exelon's Consolidated Balance Sheets as of December 31, 2004 and 2003.

	December 31,	
	2004	2003
Accumulated other comprehensive loss		
Minimum pension liability	\$(1,372)	\$ (980)
Net unrealized loss on cash-flow hedges	(138)	(140)
Unrealized gain on marketable securities	61	10
Foreign currency translation adjustment	3	1
Total accumulated other comprehensive loss	<u>\$(1,446)</u>	<u>\$(1,109)</u>

22. Segment Information

Exelon operates in three business segments: Energy Delivery (ComEd and PECO), Generation and Enterprises. Exelon evaluates the performance of its business segments based on net income.

Energy Delivery's business consists of the purchase and regulated sale of electricity and distribution and transmission services by ComEd in northern Illinois, including the City of Chicago, and by PECO in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated sale of natural gas and distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia. Generation consists principally of the electric generating facilities and wholesale energy marketing operations of Generation, the competitive retail sales business of Exelon Energy Company, Generation's interest in Sithe and certain other generation projects. Enterprises consists primarily of the remaining infrastructure and electric contracting businesses of F&M Holdings. See Note 2—Acquisitions and Dispositions for information regarding dispositions within the Generation and Enterprises segments in 2004 and 2003 and Note 3—Sithe and Note 25—Subsequent Events regarding the sale of Sithe in 2005.

Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, was transferred to Generation. Segment information for 2003 and 2002 included in the table below has been adjusted to reflect Exelon Energy Company as part of the Generation segment.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

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

	<u>Energy Delivery</u>	<u>Generation ^(a)</u>	<u>Enterprises ^(a)</u>	<u>Corporate</u>	<u>Intersegment Eliminations</u>	<u>Consolidated</u>
Total revenues:						
2004	\$10,290	\$ 7,938	\$ 155	\$ 669	\$(4,537)	\$14,515
2003	10,202	8,760	923	402	(4,475)	15,812
2002	10,457	7,320	1,336	346	(4,504)	14,955
Intersegment revenues:						
2004	\$ 27	\$ 3,841	—	\$ 669	\$(4,537)	\$ —
2003	76	3,920	81	398	(4,475)	—
2002	76	4,000	89	341	(4,506)	—
Depreciation and amortization:						
2004	\$ 928	\$ 294	\$ 1	\$ 82	\$ —	\$ 1,305
2003	873	201	24	28	—	1,126
2002	978	292	39	31	—	1,340
Operating expenses:						
2004	\$ 7,659	\$ 6,908	\$ 217	\$ 836	\$(4,538)	\$11,082
2003	7,579	8,898	1,062	472	(4,476)	13,535
2002	7,597	6,814	1,347	402	(4,504)	11,656
Interest expense:						
2004	\$ 672	\$ 167	\$ 13	\$ 61	\$ (8)	\$ 905
2003	747	89	9	45	(9)	881
2002	854	79	10	74	(51)	966
Income taxes:						
2004	\$ 706	\$ 372	\$ 6	\$ (392)	\$ —	\$ 692
2003	718	(190)	(70)	(127)	—	331
2002	765	233	53	(53)	—	998
Cumulative effect of changes in accounting principles:						
2004	\$ —	\$ 32	\$ (9)	\$ —	\$ —	\$ 23
2003	5	108	(1)	—	—	112
2002	—	2	(232)	—	—	(230)
Net income (loss):						
2004	\$ 1,128	\$ 673	\$ (22)	\$ 85	\$ —	\$ 1,864
2003	1,175	(151)	(118)	(1)	—	905
2002	1,268	367	(145)	(50)	—	1,440
Capital expenditures:						
2004	\$ 946	\$ 960	\$ —	\$ 15	\$ —	\$ 1,921
2003	962	953	14	25	—	1,954
2002	1,041	991	43	75	—	2,150
Total assets:						
2004	\$27,574	\$16,438	\$ 274	\$(1,516)	\$ —	\$42,770
2003	28,369	14,765	697	(1,895)	—	41,936
2002	27,036	11,059	1,124	(1,350)	—	37,869

(a) Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, was transferred to Generation. Segment information for 2003 and 2002 included in the table above has been adjusted to reflect Exelon Energy Company as part of the Generation segment.

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

23. Related Party Transactions

Exelon's financial statements reflect related-party transactions with unconsolidated affiliates as reflected in the tables below. Exelon accounted for its investment in AmerGen as an equity investment prior to the acquisition of the remaining 50% interest in December 2003 and its investment in Sithe as an equity method investment prior to its consolidation as of March 31, 2004.

	For the Years Ended December 31,		
	2004	2003	2002
Operating revenues from PETT	\$ 10	\$—	\$—
Operating revenues from ComEd Transitional Funding Trust	3	—	—
Purchased power from AmerGen ^(a)	—	382	273
Interest income from AmerGen ^(b)	—	1	2
Interest expense to financing affiliates ^(c)			
ComEd Transitional Funding Trust	85	—	—
ComEd Financing II	13	—	—
ComEd Financing III	13	—	—
PETT	235	—	—
PECO Trust III	6	—	—
PECO Trust IV	6	3	—
Interest expense to Sithe ^(d)	—	9	2
Services provided to AmerGen ^(e)	—	111	70
Services provided to Sithe ^(f)	—	—	1
Services provided by Sithe ^(g)	—	—	13
Equity in earnings (losses) from unconsolidated affiliates			
ComEd Funding LLC	(20)	—	—
ComEd Financing III	1	—	—
PETT	(25)	—	—

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions; except per share data unless otherwise noted)

the payment terms of the note were changed. During 2003, Generation paid \$446 million on this note. In the first quarter of 2004, Generation paid \$27 million prior to consolidation of Sithe in accordance with the provisions of FIN 46-R. The balance of the note, which bore interest at the rate of LIBOR plus 0.875%, was paid upon the completion of a series of transactions that resulted in Generation's exit from its investment in Sithe on January 31, 2005. See Note 25 – Subsequent Events regarding the sale of Generation's investment in Sithe.

- (e) Under a service agreement dated March 1, 1999, Generation provides AmerGen with certain operation and support services to the nuclear facilities owned by AmerGen. Generation is compensated for these services at cost.
- (f) Under a service agreement dated December 18, 2000, Generation provides certain engineering and environmental services for fossil facilities owned by Sithe and for certain developmental projects. Generation is compensated for these services at cost.
- (g) Under a service agreement dated December 18, 2000, Sithe provides Generation certain fuel and project development services. Sithe is compensated for these services at cost. Under a service agreement dated November 1, 2002, Sithe provides Generation certain transition services related to the transition of the Exelon New England asset acquisition, which occurred in November 2002.
- (h) In December 2003, Sithe received letter of credit proceeds of \$3 million, which Generation was billed on behalf of Sithe.
- (i) In connection with a series of transactions in November 2003 that restructured the ownership of Sithe (see Note 3 – Sithe for additional information), Exelon received a \$92 million note receivable from EXRES SHC, Inc, which holds the common stock of Sithe. Exelon owns 50% of EXRES SHC, Inc. and consolidated its investment pursuant to FIN 46-R effective March 31, 2004. Prior to the consolidation of EXRES SHC, Inc. in connection with FIN 46-R, EXRES SHC, Inc. was an unconsolidated affiliate of Exelon and was considered to be a related party to Exelon. This note was cancelled in connection with the purchase of Sithe International. See Note 3 – Sithe for additional information.

24. Quarterly Data (Unaudited)

The data shown below include all reclassifications which Exelon considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Income (Loss) Before the Cumulative Effect of Changes in Accounting Principles		Net Income (Loss)	
	2004	2003	2004 ^(a)	2003 ^(b)	2004	2003	2004	2003
	Quarter ended:							
March 31 ^(c)	\$3,722	\$4,074	\$ 752	\$788	\$380	\$ 249	\$412	\$361
June 30	3,550	3,721	811	822	521	372	521	372
September 30	3,865	4,441	1,228	6	577	(102)	568	(102)
December 31	3,378	3,576	641	661	363	274	363	274

- (a) Operating income has been adjusted to reflect a reclassification from operating and maintenance expense to other, net of \$30 million and \$28 million, for the three months ended March 31, 2004 and June 30, 2004, respectively, for comparison purposes related to decommissioning accounting presentation. These reclassifications had no impact on net income as reported.
- (b) Operating income has been adjusted to reflect a reclassification from operating and maintenance expense to other, net of \$31 million, \$22 million, \$23 million and \$3 million for the three months ended March 31, 2003, June 30, 2003, September 30, 2004 and December 31, 2004 respectively, for comparison purposes related to decommissioning accounting presentation. These reclassifications had no impact on net income as reported.
- (c) Operating income, income before the cumulative effect of changes in accounting principles and net income for the three months ended March 31, 2004 have been adjusted to reflect a reduction in net periodic postretirement benefit cost of \$6 million due to the adoption of FSP FAS 106-2. See Note 1—Significant Accounting Policies for additional information.

Exelon Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Average Basic Shares Outstanding (in millions)		Earnings (Loss) per Basic Share Before the Cumulative Effect of Changes in Accounting Principles		Net Income (Loss) per Basic Share	
			2004	2003	2004	2003
	2004	2003	2004	2003	2004	2003
Quarter ended:						
March 31 ^(a)	659	648	\$0.57	\$ 0.39	\$0.63	\$ 0.56
June 30	661	650	0.79	0.57	0.79	0.57
September 30	661	652	0.87	(0.16)	0.86	(0.16)
December 31	664	655	0.55	0.42	0.55	0.42

(a) Earnings per basic share before the cumulative effect of changes in accounting principles and net income per basic share for the three months ended March 31, 2004 have been increased by \$0.01 to reflect a reduction in net periodic postretirement benefit cost due to the adoption of FSP FAS 106-2. See Note 1—Significant Accounting Policies for additional information.

	Average Diluted Shares Outstanding (in millions)		Earnings (Loss) per Diluted Share Before the Cumulative Effect of Changes in Accounting Principles		Net Income (Loss) per Diluted Share	
			2004	2003	2004	2003
	2004	2003	2004	2003	2004	2003
Quarter ended:						
March 31 ^(a)	665	652	\$0.56	\$ 0.38	\$0.62	\$ 0.55
June 30	667	655	0.78	0.57	0.78	0.57
September 30	669	652	0.86	(0.16)	0.85	(0.16)
December 31	672	661	0.54	0.41	0.54	0.41

(a) Earnings per diluted share before the cumulative effect of changes in accounting principles and net income per diluted share for the three months ended March 31, 2004 have been increased by \$0.01 to reflect a reduction in net periodic postretirement benefit cost due to the adoption of FSP FAS 106-2. See Note 1—Significant Accounting Policies for additional information.

The following table presents the New York Stock Exchange—Composite Common Stock Prices and dividends by quarter on a per share basis:

	2004				2003			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	\$44.90	\$37.90	\$34.89	\$34.43	\$33.31	\$31.98	\$30.46	\$27.60
Low price	36.73	32.69	30.92	32.18	30.48	27.09	24.83	23.04
Close	44.07	36.69	33.29	34.43	33.18	31.75	29.91	25.21
Dividends	0.400	0.305	0.275	0.275	0.250	0.250	0.230	0.230

Exelon Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

25. Subsequent Events

ComEd

In the first quarter 2005, ComEd received final approval of the income tax refund described in Note 20—Commitments and Contingencies; however the calculation of the claim, including interest has not been finalized. As a portion of the refund will be recorded against goodwill under the provisions of EITF Issue No. 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination," the net result is not anticipated to have a material impact on Exelon's results of operations.

Generation

On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's exit from its investment in Sithe. Specifically, subsidiaries of Generation closed on the acquisition of Reservoir's 50% interest in Sithe and the sale of 100% of Sithe to Dynegy. Prior to closing on the sale to Dynegy, subsidiaries of Generation received from Sithe approximately \$65 million in cash distributions. As a result of the sale, Exelon will deconsolidate from its balance sheet approximately \$820 million of debt and will be released from approximately \$125 million of credit support associated with the Independence project. Additionally, Exelon issued certain guarantees to Dynegy that will be taken into account in the final determination of the gain or loss on the sale. See further information regarding Generation's investment in Sithe at Note 3—Sithe.

Exelon Corporation
P.O. Box 805398
Chicago, IL 60680-5398
www.exeloncorp.com

Exelon®