PHILADELPHIA ELECTRIC COMPANY

ANNUAL REPORT 1990

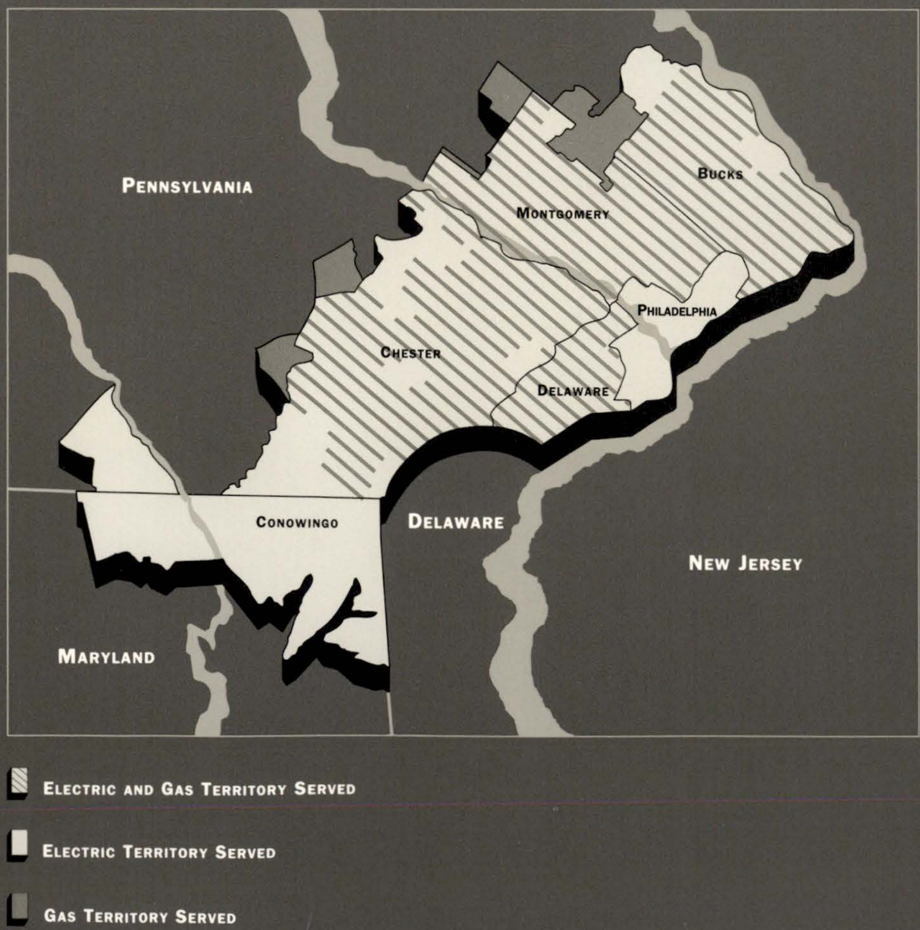
Company Profile

Philadelphia Electric Company is an operating utility which provides electric and gas service in southeastern Pennsylvania. Two subsidiaries own, and a third subsidiary operates, the Conowingo Hydroelectric Project, and one distribution subsidiary provides electric service in two counties in northeastern Maryland.

The total area served by the Company and subsidiaries covers 2,475 square miles. Electric service is supplied in an area of 2,340 square miles with a population of about 3,900,000, including 1,600,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 63 percent of kilowatthour sales are in the Philadelphia suburbs and in northeastern Maryland, and 5 percent of the service area and 37 percent of such sales are in the City of Philadelphia. Natural gas service is supplied to a population of 2,200,000 in a 1,475-square-mile area of southeastern Pennsylvania adjacent to Philadelphia.

Cover: Looking northeast from the Schuylkill River, the Company's illuminated headquarters building (at the far left) adds a dramatic touch to the growing and vibrant Philadelphia nighttime skyline.

Company Service Territory
Operating Divisions



FINANCIAL HIGHLIGHTS	1990	1989
Operating Revenues	**$3,705,161,000**	$3,405,629,000
Operating Expenses	**$2,937,447,000**	$2,596,288,000
Taxes Charged to Operations	**$420,172,000**	$435,756,000
Operating Income	**$767,714,000**	$809,341,000
Earnings Applicable to Common Stock	**$123,871,000**	$493,807,000
Earnings per Average Common Share	**$0.58**	$2.36
Cash Dividends Paid per Common Share	**$1.45**	$2.20
Average Shares of Common Stock Outstanding	**214,356,000**	208,901,000
Construction Expenditures	**$660,757,000**	$1,106,174,000
Total Assets	**$12,565,951,000**	$12,681,117,000

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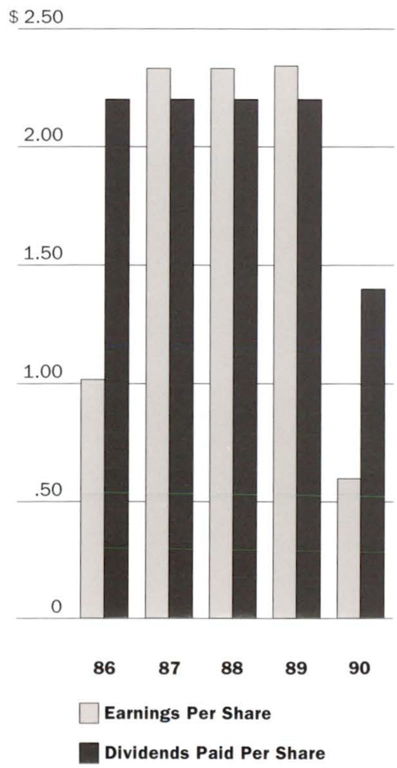
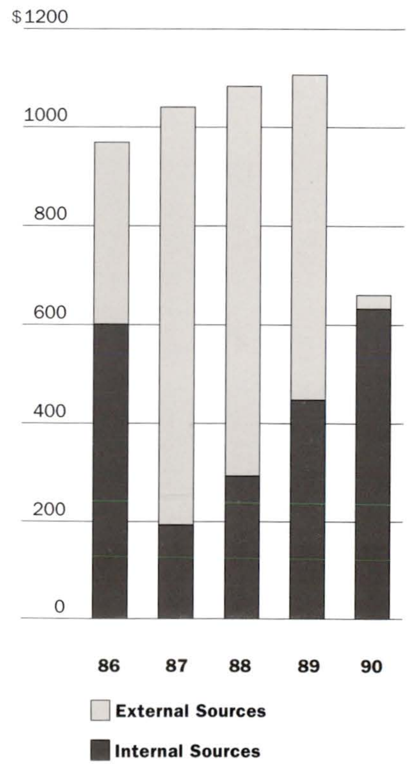
EARNINGS AND DIVIDENDS
Dollars



CONSTRUCTION EXPENDITURES
Million Dollars



The financial pages of this report are printed on recycled paper.

To Our Shareholders:

The year 1990 was one of marked contrasts for our Company. Financially, the year was extremely disappointing because of the adverse order issued in April by the Pennsylvania Public Utility Commission (PUC), which denied the Company $307 million of its rate request to recover the costs of owning and operating its new Limerick Unit No. 2. As a result of the PUC's action, it was necessary to reduce the quarterly common stock dividend from $0.55 per share to $0.30 per share effective with the June payment, thus causing the market price of the common stock, which began the year at $23 per share, to drop to $15 per share in April. It was also necessary to take a one-time charge against 1990 income of approximately $250 million ($1.18 per share) because of disallowances made by the PUC in its order.

For the year 1990, earnings amounted to only $0.58 per share versus $2.36 per share earned in 1989. The reduction was caused by the effect of the PUC disallowances, as well as non-recurring costs of an early retirement plan ($0.70 per share) and a lower rate of return on shareholders' investment as ordered by the PUC. These items were partially offset by cost reductions, elimination of the Peach Bottom shutdown penalties and an accounting change to record unbilled revenues.

Operational Progress

Despite these financial setbacks, the Company recorded significant progress on several fronts. Some of the highlights were as follows:

- With ample capacity to serve our customers' needs, approximately $95 million of revenue resulted from sales of electric energy and capacity to other utilities.
- Although gas sales declined because of warmer weather, new gas house-heating customers increased 3.4% as a result of stable gas prices and conversions from higher-cost oil heating.
- The performance of our nuclear plants continued to improve as Peach Bottom and Limerick operated at capacity factors of 78% and 70%, respectively, and both stations received higher evaluations from the Nuclear Regulatory Commission.
- The Middle East Crisis has had little impact on the Company since, with the restart of Peach Bottom Unit No. 3 and the completion of Limerick Unit No. 2 in January 1990, 65% of our electric generation was provided by nuclear power while only 4% was oil generated.
- Our fossil-fuel and hydroelectric units turned in strong performances again last year. These units were available for operation nearly 80% of the time.
- Our safety record, as measured by lost-time accidents, continued to improve, placing the Company in the top quartile of the industry.
- The market price of the Company's common stock recovered to $18 per share by year-end.

The year 1990 was also one of significant transition for the Company. With the start-up of Limerick Unit No. 2, the Company completed a 20-year expansion program which added 6,800 megawatts of new capacity, mostly nuclear, and required the investment of $9 billion. Our focus has now shifted to achieving operational excellence.

New Strategic Plan

To provide a sound basis for future activities, we have developed a new Strategic Plan which is centered on improving shareholder value by concentrating on improving our core business of providing reliable electric and gas energy in southeastern Pennsylvania and northeastern Maryland. Our primary objectives will be to improve earnings and increase customer satis-

Philadelphia Electric Company System Mission, Vision and Values

Mission

Our core business is to provide safe and reliable electric and gas services in southeastern Pennsylvania and northeastern Maryland.

Values

Customer Satisfaction

Our customers are the reason we exist. We will continually strive to anticipate, understand and meet our customers' changing needs and expectations so that we remain their preferred supplier of energy services.

Shareholder Value

Our shareholders are the owners of the business and provide the equity capital necessary to construct and replace our facilities. We will operate our business in a manner that will increase shareholder value.

Employee Values

We will provide every person with necessary support, training and the opportunity to participate in our process of continuous improvement, to achieve their personal potential, and to realize job satisfaction. We will recognize commitment and excellent performance.

Safety

We place a high value on the safety of employees and the public and are committed to conduct all phases of our business with safety as a major consideration.

Integrity

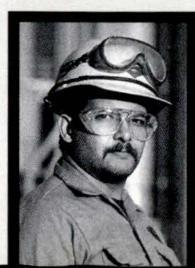
The Company highly values its reputation for integrity in our dealings with customers, the public, elected officials, suppliers and other constituencies. We will conduct all of our activities in a manner which preserves that confidence.

Environmental Commitment

We will conduct our business in a manner which demonstrates our commitment to protect the public and the environment.

Community Involvement

Our Company's future depends on the prosperity of the communities that we serve. The Company and its employees will continue to be involved in civic activities, economic development initiatives and the preservation of our communities.



Joseph F. Paquette, Jr. (left) Chairman of the Board and Chief Executive Officer with Corbin A. McNeill, Jr. President and Chief Operating Officer

faction by minimizing the need for rate increase requests through improved productivity and increased utilization of our generating capacity. We do not view diversification as an attractive option at this time.

During the year, your management implemented a number of major initiatives to set the stage for successfully achieving the new Strategic Plan including:

(1) Concurrent with the dividend reduction, we announced a plan to reduce operating expenses by $100 million per year by the end of 1991. This is being accomplished through salary cuts for management, restrictions on overtime and the use of outside contractors, an early retirement program which is expected to reduce employment by about 1,500, and reductions in advertising and charitable contributions.

(2) We have developed a new Mission, Vision, and Values statement for our employees to provide guidance for the Strategic Plan. The Mission, Vision and Values are presented on pages 4 and 5 of this report.

(3) We announced a comprehensive plan to reorganize our division operations by decentralizing responsibility and transferring accountability to local division general managers for improving customer satisfaction and for achieving cost-saving objectives.

(4) Further steps were taken to strengthen the Company's top management and Board of Directors. In April, Corbin A. McNeill, Jr. was promoted to the position of President and Chief Operating Officer after having successfully provided leadership to our restructured nuclear department. We were also extremely fortunate to augment the Board of Directors with the addition of John M. Palms, President of Georgia State University, James A. Hagen, Chairman, President and CEO of Consolidated Rail Corporation, and Richard H. Glanton, Esquire, Partner of the law firm Reed Smith Shaw & McClay.

Outlook

We face the future with a number of significant challenges before us. Among these are the need to improve our competitive position while restoring shareholder value; to devote the resources and attention required to achieve excellence in all of our operations; and to comply with increasingly strict environmental standards, especially the anticipated stringent regulations to be issued under the Amendments to the Clean Air Act of 1990.

I believe the Company is well positioned to address these future challenges since we have already taken a number of difficult but significant steps to move ahead through the 1990's. Specifically,

- our current generating capacity is sufficient for our customers' needs into the next decade;
- our nuclear units and the scrubbers already installed on our coal units significantly limit our exposure to the recently enacted clean air legislation;
- our low level of oil-fired generation insulates us from the potential scarcity of fuel oil and volatility of fuel oil prices;
- our commitment to operational excellence and continuing cost control is firmly established; and
- our construction program and financing needs have been significantly reduced.

In 1990, the stage was set to turn Philadelphia Electric in a new direction. For 1991, our objective is to complete the implementation of our new strategies and to demonstrate financial improvement at least sufficient to warrant consideration of a dividend increase in the near future. Our dedicated body of employees and their commitment to our Mission, Vision and Values will provide the foundation to achieve our objectives.

We extend our sincerest thanks for your loyalty to the Company, especially during this difficult year.

J F Paquette Jr

J. F. Paquette, Jr.
Chairman of the Board and
Chief Executive Officer

February 1, 1991

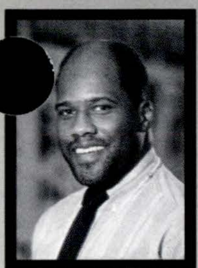
VISION

We will become a premier regional energy services company by achieving superior customer satisfaction and shareholder value through the involvement of committed employees. We will work as a quality focused team to achieve our vision. Our actions will be guided by certain fundamental values.

STRATEGIES

COMPETITIVE POSITION

The Company will become cost competitive with the average of our electric peer group during the 1990's. We will achieve this through rigorous control of expenses and capital expenditures, thus minimizing the need for rate increases while improving our income.



CUSTOMER SATISFACTION

To achieve customer satisfaction, we will continually evaluate our performance against their expectations. We will use the concepts of Quality Management to identify and address opportunities for service quality improvement and cost reduction.

MARKETING

We will implement strategic marketing and energy conservation programs that contribute to better utilization of our facilities, enhance our revenues, and assist customers in improving their energy use efficiency. We will aggressively market any temporarily excess capacity and energy through off-system sales when justified.

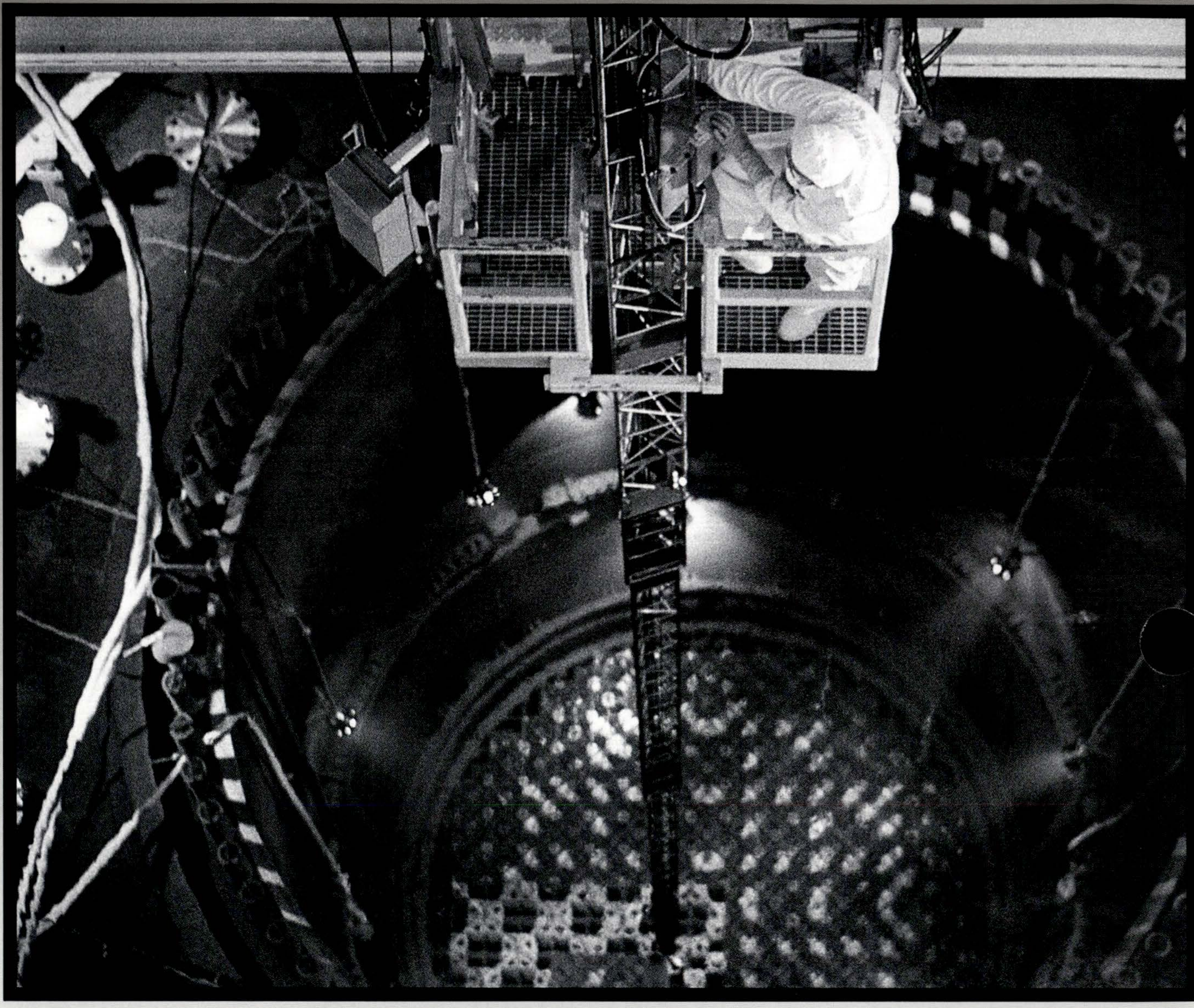
GAS BUSINESS

We will aggressively manage our natural gas business by maximizing our profitable marketing opportunities and rigorously controlling expenses and capital expenditures. This will enable us to remain competitive and minimize the need for rate increases. We will consider acquisitions of related gas businesses which would permit the creation of value.

ELECTRIC SUPPLY STRATEGY

We will realize the benefits of our significant commitment to nuclear power and will continue to diligently manage the operation of our nuclear plants to maximize their safety and performance.

Although we have sufficient installed capacity to meet expected area load growth beyond the turn of the century, we will pursue various options to defer the need for construction of new generating facilities, including demand side management.



Gordon L. Johnston, Nuclear Maintenance Division: "Our newly developed group was formed to service the reactors at both Limerick and Peach Bottom. Having the same group service both sites makes us more efficient and saves the Company money."

Nuclear fuel is loaded into the Limerick Unit No. 1 reactor. This view is from directly above the reactor vessel and refueling bridge. The 1990 reload required the individual replacement of one-third of the unit's 764 fuel elements by exchanging them between the spent fuel ... and the reactor. ...g the reload, some 2,000 maintenance tasks were performed, of which approximately 1,500 were preventive maintenance.

Earnings per average share for 1990 amounted to $0.58 versus $2.36 earned in 1989. The decrease in earnings was primarily due to the one-time write-off in the first quarter of 1990 of approximately $250 million, or $1.18 per share, associated with various disallowances made by the Pennsylvania Public Utility Commission (PUC) in the Limerick Generating Station (Limerick) Unit No. 2 rate order, as well as a lower rate of return allowed by the PUC, and the third quarter write-off of $0.70 per share associated with the Company's Special Retirement and Service Completion Plan (early retirement plan). This decrease in earnings was partially offset by electric sales to other utilities, effective cost management, the net effect of certain accounting changes and the elimination of costs associated with the Peach Bottom Atomic Power Station (Peach Bottom) shutdown which adversely affected 1989 results. For a complete discussion of revenue and expense results and accounting changes, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations on page 17.

Sales Results

Total electric sales increased 5.0% to 34.3 billion kilowatthours, including energy sales to other utilities. Excluding these sales, electric service territory sales decreased 0.7% from 1989 levels primarily due to more moderate weather. Gas sales, including transported gas, decreased 4.4 billion cubic feet or 5.4% from last year. Gas heating sales were down due to milder weather during the heating season in 1990 as compared to 1989, while transported gas improved by 6.4 billion cubic feet or 35.4%.

More than 10,000 new residential units were connected in 1990. Electric space heating was installed in 45% of these units and gas heat in 41% for a total market penetration of 86% of new living units which will be using PE's clean and efficient energy products.

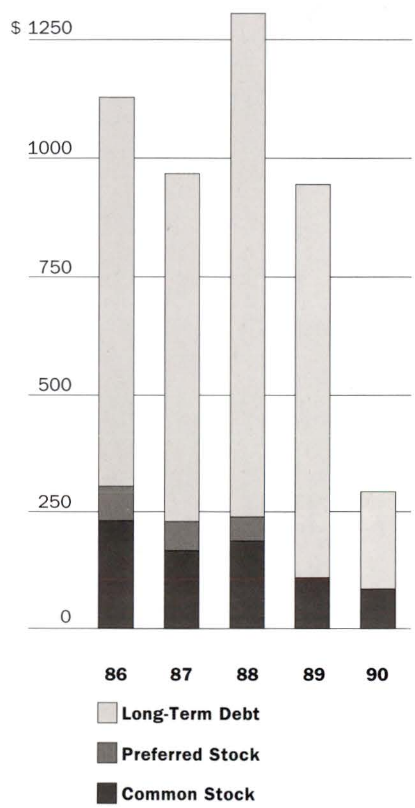
1990 Financings

During 1990, the Company raised nearly $290 million in capital, less than one-third of the $940 million raised in 1989. The table below summarizes the 1990 financings.

Month		*Millions of Dollars*
October	Mortgage Bonds—10% Due 2000	$100.0
	Mortgage Bonds—10½% Due 2020	100.0
January	Medium-Term Note Program: 9% Notes Due 1996	5.0
January—December	Dividend Reinvestment & Stock Purchase Plan: 4,976,745 Shares; Average Price of $17.04	84.8
	Total	$289.8

The financing program was designed to take

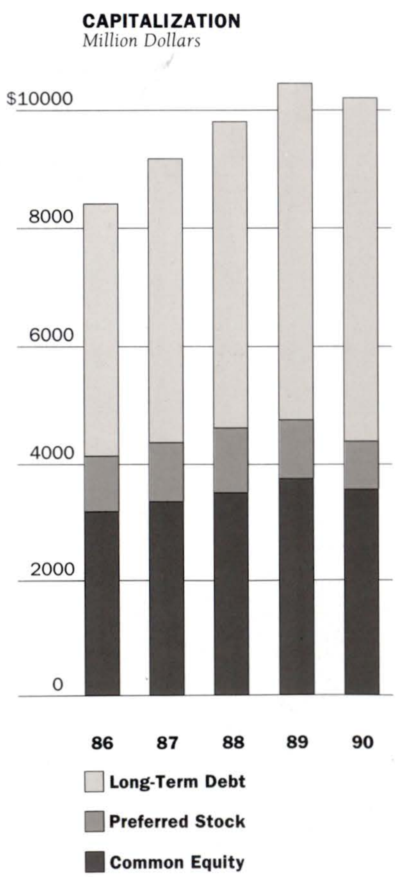
EXTERNAL FINANCINGS
Million Dollars



advantage of opportunities to refund high-interest-rate debt and high-dividend-rate preferred stock at lower rates. The Company refunded nearly $220 million of securities in 1990 resulting in net annual savings of $12 million. Since the Company began its refunding program in 1985, nearly $1.5 billion in securities have been refunded for a total reduction of $47 million in annual interest expense and preferred dividends.

Plant Investment

The Company invested $661 million in new plant and equipment in 1990, down $445 million from 1989. The level of new plant investment decreased with the completion of Limerick Unit No. 2 in January. Construction spending is expected to decrease further to $588 million for 1991 and to average approximately $550 million per year through 1994. New transmission and distribution projects will account for a substantial portion of the projected expenditures.



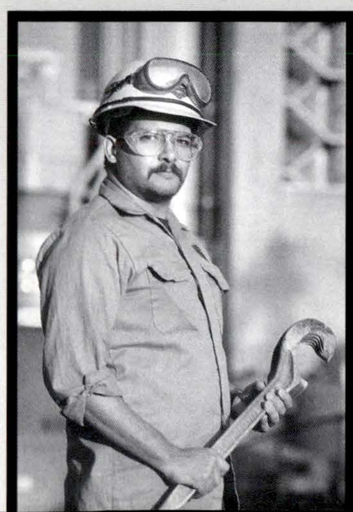
Limerick Rate Order

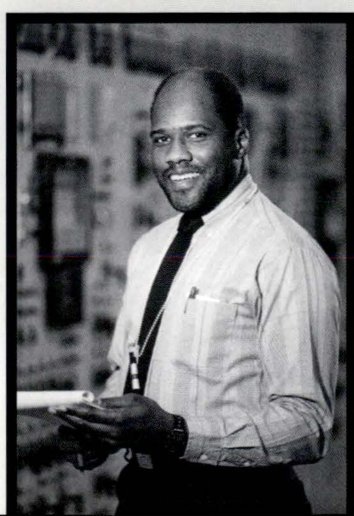
In July 1989, the Company filed a $549 million base-rate increase request with the PUC to include in electric rates the costs of owning and operating Limerick Unit No. 2 and associated common facilities. The PUC issued a final order, effective April 20, 1990, approving an annual rate increase of only $242 million, or approximately 44% of the Company's request. The $307 million of revenue disallowed included $106 million due to the PUC finding that 399 megawatts (MW) represented excess capacity and $95 million associated with a lower authorized rate of return on common shareholder equity. The PUC did approve recovery of approximately $137 million of Limerick Unit No. 1 costs which had previously been deferred pursuant to a Declaratory Order. On May 18, 1990, the Company filed with the Commonwealth Court of Pennsylvania (Commonwealth Court) a Petition for Review of the PUC's final order. The Company appealed, among other things, the PUC's disallowance of any return on the common equity investment for 399 MW of Limerick Unit No. 2 and associated common facilities based on the PUC's finding of excess capacity. The Office of Consumer Advocate (OCA) also appealed, challenging the permitted recovery of Limerick Unit No. 1 Declaratory Order costs.

On December 3, 1990, the Company, the OCA and others filed a joint petition for settlement of all appeals arising from the PUC's final order. The proposed settlement, which is subject to PUC approval, provides that the Company and the OCA will withdraw their appeals of the Limerick Unit No. 2 rate order and that the Company will not file a request for another base-rate increase before April 1994, except for emergency or single-issue rate filings (e.g., a change in costs associated with new legislation or regulations). In addition, the Company has agreed to consolidate the previously authorized Limerick Unit No. 1 and Unit No. 2 phase-in plans and

Eddystone Generating Station (left) with its scrubbing plant (right). The scrubbers were installed in 1982 to remove sulfur dioxide and particulate emissions from the flue gas.

Herman Perez, Eddystone Generating Station: "Scrubbers allow our Eddystone and Cromby coal plants to operate in compliance with the new clean air legislation. Through my work on the scrubbers, I am aware of the Company's commitment to operate in a way which protects the public and the environment."





Gilbert L. Jones, Peach Bottom Atomic Power Station: "I'm very proud to be part of the successful restart of the Peach Bottom Station. Now that we are operational, I enjoy being part of a team striving for excellence."

A new, two-story, 70,000-square-foot training center (left) was opened at Peach Bottom during 1990. The facility is adjacent to the Unit No. 1 building (center) which currently houses the control room training simulator for Units No. 2 and No. 3. Peach Bottom Unit No. 1 was an experi- al high-temperature ooled reactor which operated between 1967 and 1974. Peach Bottom Units No. 2 and No. 3 appear in the distance (right).

levelize associated rates over the May 1991 to December 1992 time period. In return, the Company will be permitted to retain the net proceeds of any sales to other utilities of the 399 MW of electric capacity/energy deemed excess by the PUC. In addition, beginning in April 1994, the Company will be allowed to retain 16.5% of the energy cost savings from the operation of Limerick Unit No. 1 and Unit No. 2, with customers receiving the remainder of such energy savings. The Company's potential benefit from this proposed settlement is limited to $106 million per year through 1994 and to higher amounts thereafter. Please refer to note 2 of the Notes to Financial Statements for further information.

Operations

Economic advantages of the Company's investment in nuclear power and reduced dependence on oil were affirmed by events in the Middle East during the second half of 1990. As oil prices rose dramatically, the Company's cost of fuel was 1.28 cents per kilowatthour, down 28% from the 1989 level.

The Company has ownership interests in six nuclear units—two each at Limerick, Peach Bottom and Salem Generating Station (Salem). Limerick is operated and 100% owned by the Company. The Company operates Peach Bottom and owns a 42.49% share of the plant while Public Service Electric and Gas Company operates Salem, with PE owning a 42.59% share of that facility. These six units produced 65% of the Company's total output in 1990, equivalent to burning 37.5 million barrels of oil and saving $630 million in fuel costs for customers.

On January 8, 1990, Limerick Unit No. 2 began commercial operation following a record-setting start-up program of 200 days. Unit No. 2 operated at an 80% capacity factor during its first year of operation. The highly praised Limerick Unit No. 2 construction project received yet another award in 1990—national "Project of the Year" honors presented by the Project Management Institute.

A new water processing facility, designed to cool and treat water from the Delaware River, was constructed to meet strict environmental requirements imposed by the Pennsylvania Department of Environmental Resources. The $21 million facility, located in Bucks County, Pennsylvania, began operation in June in conjunction with the supplemental cooling water system for Limerick. This supplemental cooling water system has provided Delaware River water to Limerick for more than a year with no negative environmental effects.

In December, the Company received a Systematic Assessment of Licensee Performance (SALP) evaluation of Limerick from the Nuclear Regulatory Commission (NRC) covering the period September 1, 1989 to October 15, 1990. The report found that Limerick's performance had improved since the last SALP evaluation and awarded top scores in five of the seven evaluated areas with continuing improvement noted in the remaining two areas. The SALP evaluation found that management involvement was key to the continued strong operating performance at the plant. PE management, it said, continued to demonstrate a commitment to safe, quality operation at Limerick.

During 1990, Peach Bottom continued its record of improving performance since it was restarted following the NRC shutdown. In February, the NRC announced that "Peach Bottom had demonstrated sustained improvement sufficient to warrant removal from the category of plants that require increased attention from NRC headquarters and the Regional office." The Company has a new nuclear management team which is committed to excellence and is confident of its ability to operate its nuclear facilities safely and efficiently.

The SALP evaluation of Peach Bottom's plant performance for the period July 1989 through May 1990 stated that "...during this assessment period, the licensee successfully implemented the restart and power ascension programs for both units. A solid foundation of self-assessment programs and a management philosophy of safety-conscious operations have been established."

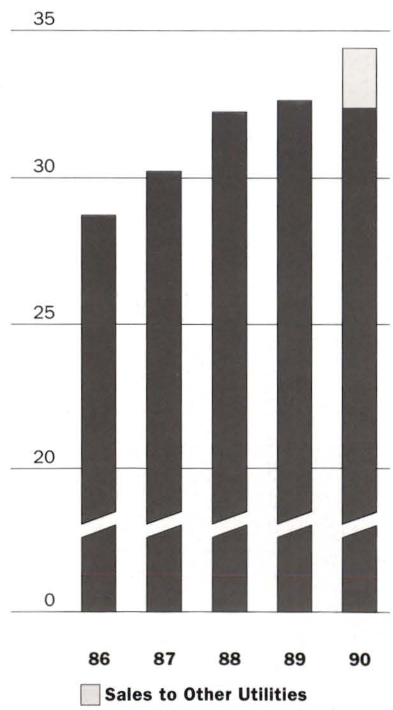
The most recent SALP evaluations for Limerick and Peach Bottom are the best evaluations the Company has ever received for the stations from the NRC; however, both plants have a number of specifically identified areas where improvement is required.

A new 70,000-square-foot training center and personnel processing facility, opened at Peach Bottom in October, enables the station to meet the growth and expanding responsibilities of its Training Division.

1990 was also a year of accomplishment for the Company's gas operations. During the year, the number of residential gas house-heating customers topped 250,000 for the first time.

The events in the Middle East caused oil prices to increase 50% or more during the fall of 1990 while natural gas prices remained stable.

ELECTRIC SALES
Billion Kilowatthours



An aggressive direct mail campaign to homes located along existing gas mains was mounted in early September. As a result, residential conversions from oil heating for 1990 were ahead of 1989 by 24% with over 2,800 homeowners switching to clean, affordable and abundant natural gas. The number of residential gas heating service contracts at the end of 1990 totaled 80,179, representing over 31% of the residential heating customers. This level of market penetration for service contracts is one of the highest in the industry. The Company's strategy in this market is to continue to offer highly reliable, reasonably priced natural gas while focusing on becoming a premier heating appliance service organization.

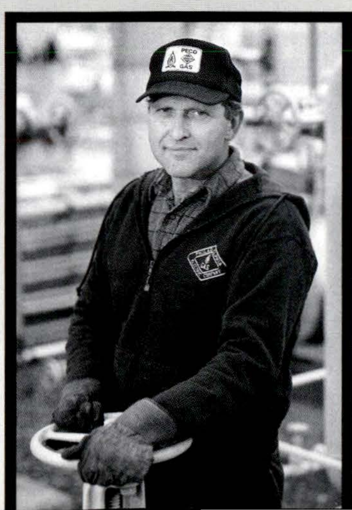
Extensive work was completed during planned outages at both Eddystone and Cromby Generating Stations in 1990. In addition to major boiler and auxiliary equipment maintenance, significant improvements were made to the Unit No. 2 and Unit No. 4 turbines at Eddystone, which has been in operation for 30 years. At Cromby, a large section of the Unit No. 2 boiler was replaced and a major turbine inspection on Unit No. 1 was completed.

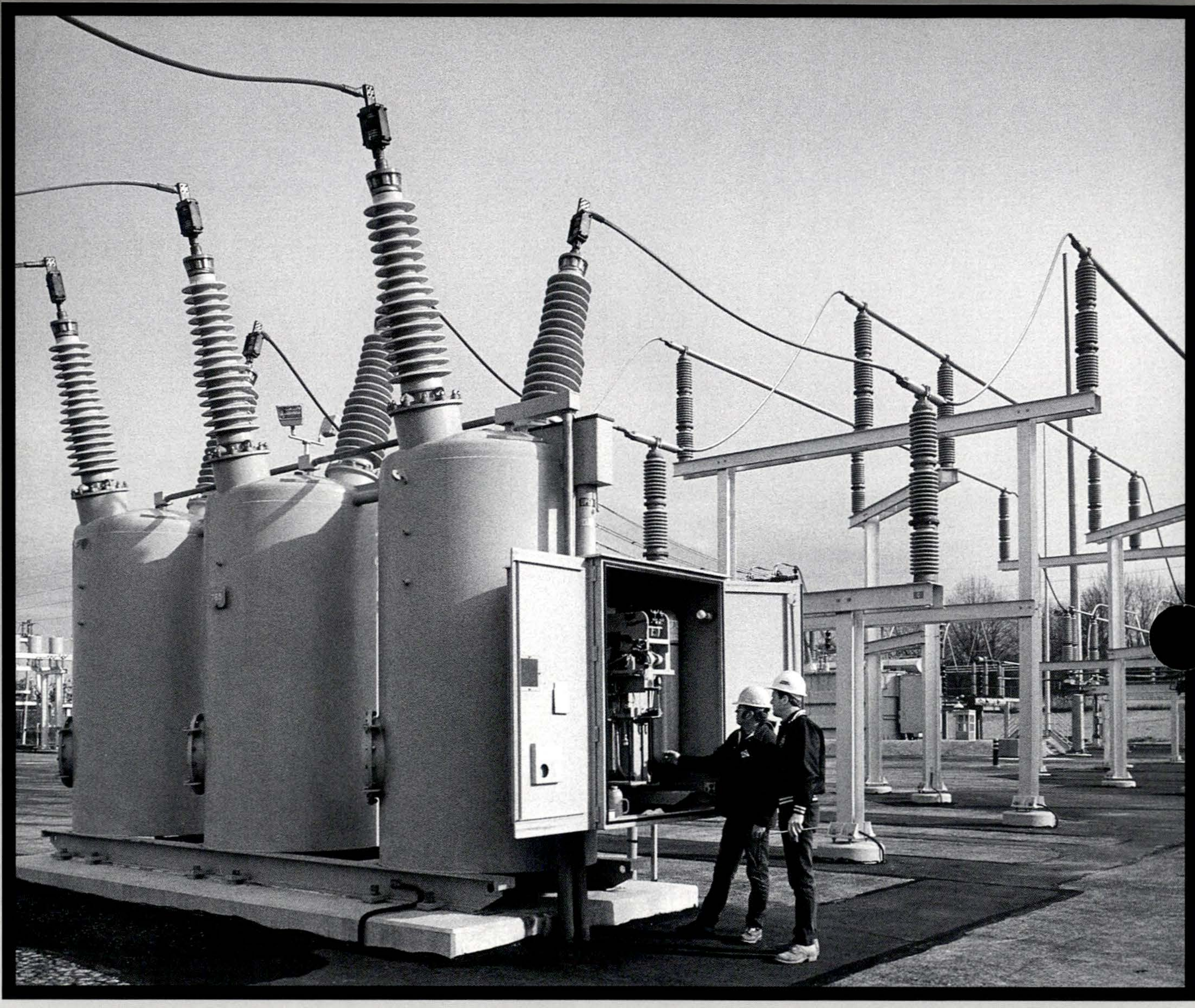
Legal Matters

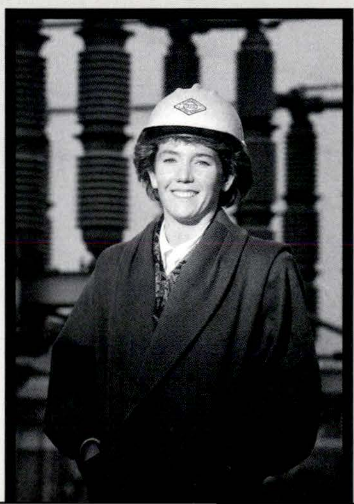
During 1990, a settlement was reached in the derivative suit brought by certain shareholders against the Company's former Chairman and former President in connection with the events leading to the shutdown of Peach Bottom by the NRC on March 31, 1987. The settlement became final on October 30, 1990. Under the terms of the settlement, two of the Company's director- and officer-liability insurance carriers paid $34.5 million. The recovery, less $6.5 million for attorneys' fees and expenses, was paid to the Company on November 1. The Company will also arbitrate an insurance coverage issue with a third insurance carrier. Depending on the results of the arbitration, another $9 million may be paid as part of the settlement. As a derivative suit filed on behalf of the Company, awards are

The West Conshohocken Liquified Natural Gas (LNG) Plant supplements the Company's natural gas supply system by providing liquified natural gas from storage (tank at left rear) to meet peak load requirements. During periods of heavy demand in the winter, the plant converts the LNG to na gas to supplement reg pipeline supplies.

Vernon C. Readman, III, West Conshohocken Gas Plant: "Our customers depend on us for a reliable supply of natural gas—even on the coldest winter days. My job is to be sure that our customers have all the gas they need, when they need it, 24 hours a day, 365 days a year."







Catherine A. McGinley, Western Division: "As an engineer in Electric Transmission and Distribution, I get the opportunity to work in the field with many different groups to coordinate projects that will allow the Company to serve its customers with increased reliability and quality of service."

paid to the Company and not directly to the shareholders.

The two lawsuits filed by the co-owners of Peach Bottom against the Company concerning the NRC-ordered shutdown of Peach Bottom are still pending. In these suits, which were both filed on July 27, 1988 in the United States District Court for the District of New Jersey, the co-owners seek compensation for certain replacement power costs and other costs which they incurred as a result of the shutdown. The suits include claims for punitive damages. The parties to the litigation are currently engaged in ongoing discovery. The Company continues to defend itself vigorously against these claims. Please refer to note 3 of the Notes to Financial Statements for further information.

Providing reliable service requires the installation of an adequate number of transmission substations to meet growing load requirements in our service territory. Workmen inspect a circuit breaker at Planebrook Substation near Exton, Pennsylvania.

Environmental Commitment

Coal was used to produce 18% of the Company's energy in 1990 and a significant portion of that was generated at Cromby and Eddystone, which are already equipped with state-of-the-art scrubbing equipment to clean emissions into the atmosphere. These plants already meet the most stringent sulfur dioxide limits specified in the Amendments to the Clean Air Act of 1990. Oil was used to produce just 4% of the Company's total generation in 1990.

Power Sales / Savings

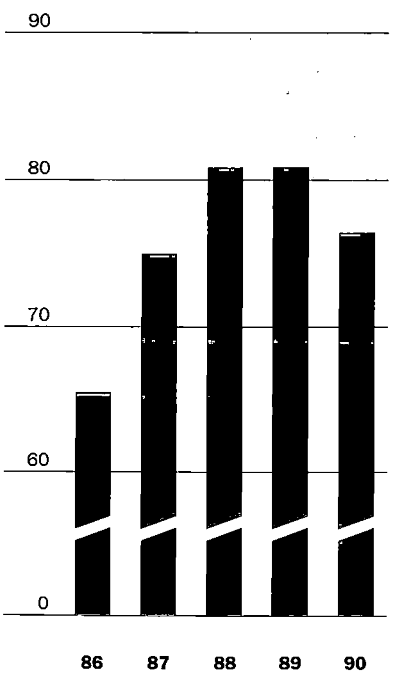
The commercial operation of Limerick Unit No. 2 enabled the Company to evolve from a buyer to a seller of power and related services. Sales of capacity, energy and transmission system import capability under contract to other utilities during 1990 generated $95 million of revenue for the Company and contributed $0.19 per share to common stock earnings. In addition, through its membership in the Pennsylvania-New Jersey-Maryland Interconnection (PJM) and the continuation of its long-standing agreement to purchase coal-fired power from systems outside PJM, the Company achieved savings for customers of approximately $45 million through the purchase and sale of economical power.

Conservation And Load Management

During the year, the Company accelerated its marketing efforts on such customer-benefit programs as conservation, load management and compressed natural gas vehicles (NGV's). Through an advertising campaign, "The Power Is In Your Hands, Use It Wisely," the Company informed its customers—residential, commercial and industrial—how to use energy more efficiently, thereby saving on their electric bills and ultimately delaying the need for the Company to build or buy expensive additional electric capacity.

Clean air legislation and the Middle East crisis greatly accelerated interest in NGV's using natural gas as a gasoline alternative. NGV's offer lower fuel and operating costs, cleaner-burning engines and less reliance on foreign fuel sources. In 1990, several public and private fleet managers made the decision to convert a portion of their fleets to NGV's. Philadelphia Electric Company continues to increase the number of NGV's in its fleet and plans to increase its refueling-station network.

GAS SALES & TRANSPORTED GAS
Billions of Cubic Feet



The Company's strong commitment to the environment and the economic well-being of its customers, combined with other market forces, may in the long run pave the way for public acceptance of NGV's.

Area Development

As the 1990's begin, southeastern Pennsylvania is positioned to continue the growth and development seen in the 1980's. The region's unemployment rate of 5.3% continues to be below both the state and national rates.

The service territory continues to be a center for insurance, financial, health care, real estate, publishing, chemical and pharmaceutical industries. Major renovations totaling $700 million are underway at the Philadelphia International Airport, and an $80 million four-hotel "Airport Interplex" is scheduled to be built across from the airport adjacent to Interstate 95. The Philadelphia waterfront has projects representing $1.75 billion planned, including hotels, townhouses, condominiums, restaurants, retail shopping and marinas. Also, construction of the $530 million Philadelphia Convention Center has begun in the downtown Philadelphia area. Plans for the center, scheduled to be completed in late 1993, include a 1,100-room hotel, a ballroom, meeting rooms and exhibition space.

During 1990, the Company provided location assistance in the service territory to numerous companies, with 21 establishing new facilities, 8 establishing branch plants and 38 relocating and/or expanding within the service area. As a result, 9,300 jobs were either created or retained in PE's service territory.

Divisional Reorganization

In September, the Company announced a major divisional reorganization designed to bring the management of the Company's operations closer to its customers. During 1991, the Company will decentralize the administration of its electric and gas distribution and customer-related functions to give its divisional general managers direct responsibility and accountability for the quality and reliability of service to its customers.

Under the reorganization, the remaining central operations at the Company's headquarters in Philadelphia will continue to supervise the transmission of gas and electricity and will provide extensive administrative services to support divisional operations in the field.

The reorganization will also change the existing boundaries of the Company's suburban divisions to conform with the geographical boundaries of Bucks, Chester, Delaware, and Montgomery Counties, thereby realigning divisions that now cross county lines.

The reorganization will also establish two divisions in Philadelphia, but will leave basically unchanged the boundaries of Conowingo Power Company, a PE subsidiary serving portions of Cecil and Harford Counties in Maryland and a part of York County in Pennsylvania. (Please refer to the map on the inside front cover.)

Early Retirement Plan

As part of the Company's plan to reduce operating costs by $100 million by year-end 1991, the Company initiated an early retirement plan for employees. This plan provided a one-time opportunity for all Company employees who were 50 years of age or older and who had five or more years of credited service to elect an improved pension benefit. The plan provides long-term benefits to the Company as a result of the salaries and associated benefits saved through retirements. Of the 2,608 eligible employees (23% of total employment), 1,909 employees elected to accept early retirement. As a result, the Company incurred a one-time, pre-tax charge of approximately $249 million, or $0.70 per share, in the third quarter of 1990 but expects to save approximately $75 million per year by the end of 1992. Please refer to note 5 of the Notes to Financial Statements for further information.

EARNINGS

Earnings per share for 1990 were $0.58, including a $0.51 per share cumulative effect of an accounting change. These earnings were $1.78 per share below 1989 earnings of $2.36, when 2.6% fewer shares were outstanding. The decrease in earnings was due primarily to a one-time charge against income in the first quarter of approximately $250 million, or $1.18 per share, associated with various disallowances made by the Pennsylvania Public Utility Commission (PUC) in the Limerick Unit No. 2 rate order and the third quarter charge of approximately $150 million, or $0.70 per share, resulting from the Company's special early retirement plan. In addition, the rates allowed by the PUC rate order were substantially less than the amount requested by the Company, resulting in a $0.55 per share decrease in earnings compared to 1989. Partially offsetting these reductions was the elimination of penalties associated with the Peach Bottom shutdown which reduced 1989 earnings by $0.25 per share.

On July 21, 1989, the Company filed with the PUC a request for an electric rate increase designed to yield $549 million annually, net of Limerick Unit No. 2 fuel savings, principally to recover costs associated with Limerick Unit No. 2 and associated common facilities. On April 19, 1990, the PUC issued a final order in the Limerick Unit No. 2 rate case approving an annual rate increase of $242 million, or approximately 8%, to be phased in over approximately a three-year period. Additionally, as a result of the PUC's final order, the Company incurred a one-time after-tax charge against income in the first quarter of 1990 of approximately $250 million associated with various disallowances.

In recognition of the adverse impact on future earnings of the PUC's final order in the Limerick Unit No. 2 rate case, on April 23, 1990, the Board of Directors of the Company reduced the Company's quarterly common stock dividend by approximately 45% to $0.30 per share.

The Company also initiated a Company-wide cost-reduction program designed to reduce operating expenses by at least $100 million annually by December 31, 1991. The program includes, among other initiatives, a reduction in pay for top management and in fees for the Board of Directors, a reduction in the number of contract personnel and in capital spending, and a special, one-time early retirement plan.

The election by eligible employees to accept early retirement under the plan was required to be made between July 15, 1990 and September 15, 1990. Of the 2,608 eligible employees, 1,909 employees elected to accept early retirement. In order to ensure an orderly restructuring of the workforce and to provide time for training of replacements, where necessary, employees who allowed management to schedule their specific dates of retirement receive (upon retirement) payments equal to [illegible] months of base salary. Retirements taken pursuant to this provision are occurring in stages between November 1, 1990 and December 31, 1992. Of the 1,909 employees electing to accept early retirement, 1,859 employees opted to allow management to schedule their retirement dates. The costs associated with the early retirement plan were recognized during the third quarter of 1990. As a result, the Company incurred a one-time after-tax charge of $150 million applicable to electric and gas operations.

In accordance with a Declaratory Order of the PUC dated May 3, 1989 and modified on February 23, 1990, the Company deferred the operating and maintenance expenses, depreciation, and accrued carrying charges on its capital investment in Limerick Unit No. 2 and associated common facilities from January 8, 1990, the commercial operation date of Limerick Unit No. 2, until April 20, 1990, the effective date of the Limerick Unit No. 2 rate order. At December 31, 1990, these costs, which are included in Deferred Limerick Costs, totalled $91 million. Recovery of these costs, which is not assured, will be addressed by the PUC in a subsequent electric rate case.

ELECTRIC OPERATING REVENUE

Provided below are the components of the net increase in electric operating revenue from 1988 through 1990:

	Electric Revenue Increase/(Decrease)		
(Millions of Dollars)	**'90 vs '89**	'89 vs '88	'88 vs '87
Rate Increase	$167	—	$ 1
Federal Tax Adjustment Credit	—	$ (2)	(55)
Fuel Adjustment Revenue	41	114	16
Energy and Capacity Sales	96	—	—
Sales and Other	(4)	58	79
	$300	$170	$41

In 1990, kilowatthour (kWh) sales of electricity to retail customers were 0.7% below those in 1989, primarily as a result of moderate weather. Sales to retail customers increased 1.4% in 1989 over 1988 and 5.5% in 1988 over 1987 due to economic growth and favorable weather.

GAS OPERATING REVENUE

Gas revenue in 1990 was lower than 1989 due primarily to milder weather, partially offset by increased revenue from transported gas sales. Total gas sales in 1990, including transported gas, decreased by 5.4%. Increased gas revenue in 1989 over 1988 was primarily due to an increase in the purchased gas cost rate. For 1989, total gas sales, including transported gas, were essentially the same as 1988.

FUEL AND ENERGY INTERCHANGE EXPENSE

For accounting purposes, fuel and energy interchange costs are deferred until billed as fuel adjustment revenue. (See note 1 of Notes to Financial Statements.) In 1990, fuel and energy interchange costs were $130 million lower than 1989 primarily due to increased nuclear generation as a result of the return to service of the Peach Bottom Units and the commercial operation of Limerick Unit No. 2. In 1989, fuel and energy interchange costs were $76 million higher than 1988 primarily due to increased output, higher cost of fossil generation and costs deferred in previous years.

Effective April 20, 1990, the PUC established an Energy Cost Adjustment (ECA) which, in addition to reconciling fuel costs and revenues, incorporates a nuclear performance standard which provides for financial bonuses or penalties depending upon whether the Company's system nuclear capacity factor exceeds or falls below a specified range. The bonuses or penalties are based upon average system replacement energy costs. If the capacity factor is within the range of 60-70%, there is no bonus or penalty. If the capacity factor exceeds or falls below the specified range, then progressive incremental bonuses or penalties are incurred. The Company did not incur a bonus or a penalty for 1990.

Effective April 20, 1990, the Energy Cost Rate Factor was changed from a credit value of 2.782 mills per kWh to an ECA credit value of 3.744 mills per kWh, which represents a decrease in annual revenue of approximately $30 million.

Other Operating And Maintenance Expenses

In 1990, non-fuel operating and maintenance expenses increased $406 million or 38% over 1989 primarily due to a one-time charge associated with the early retirement plan, additional charge-offs for uncollectible accounts resulting from the Limerick Unit No. 2 electric rate order, the establishment of an allowance for uncollectible accounts for all classes of service, and higher incremental nuclear maintenance and refueling outage costs resulting from the adoption of a method of accounting which recognizes a normalized monthly level of such costs over the period of the operating cycle.

In 1989, non-fuel operating and maintenance expenses increased $30 million or 2.9% over 1988 primarily due to expenses associated with the Limerick Unit No. 1 refueling outage.

Depreciation

Depreciation expense increased in 1990 compared to 1989 primarily as a result of Limerick Unit No. 2 being placed in commercial operation.

Depreciation expense for 1989 increased over 1988 due to plant additions.

Income Taxes

The sum of income taxes charged to operations and income tax credits included in other income decreased in 1990 compared to 1989 primarily due to the costs associated with higher operating and maintenance expenses and write-offs associated with various disallowances made by the PUC.

In 1989, compared to 1988, the sum of income taxes charged to operations and income tax credits included in other income decreased primarily due to higher interest charges and higher operating and maintenance expenses.

Other Taxes

Other taxes decreased slightly in 1990 compared to 1989 primarily due to lower capital stock tax, partially offset by increased federal old age benefits taxes.

Other taxes increased in 1989 versus 1988 due to higher gross receipts taxes, partially offset by lower capital stock taxes.

Allowance For Funds Used During Construction

The decrease in Allowance for Funds Used During Construction (AFUDC) in 1990 compared to 1989 is due to the inclusion of Limerick Unit No. 2 in rate base. The increase in 1989 versus 1988 was due to increases in construction work in progress, primarily related to Limerick Unit No. 2.

Interest Charges

Interest charges on debt decreased in 1990 compared to 1989 primarily due to the interest on the settlement of the Salem Unit No. 2 safe harbor lease transaction which was reflected in 1989. The increase in 1989 over 1988 was also associated with the safe harbor lease transaction.

Changes In Accounting

In December 1990, effective January 1, 1990, the Company adopted a change in accounting for revenues in order to record the estimated amount of operating revenues for sales of electric and gas service unbilled at the end of each month. This accounting change, reflected as a cumulative effect, resulted in an increase in 1990 earnings of approximately $108 million, or $0.51 per share. The change in accounting had an insignificant effect on 1990 earnings before reflecting the cumulative effect of such change at January 1, 1990. (See notes 1 and 4 of Notes to Financial Statements.)

Also in December 1990, effective January 1, 1990, the Company adopted a change in accounting for incremental nuclear maintenance and refueling outage costs which recognizes a normalized monthly level of estimated costs over the period of the unit operating cycle. This accounting change decreased earnings by approximately $17 million, or $0.08 per share. (See notes 1 and 4 of Notes to Financial Statements.)

Capital Expenditures And Liquidity

The Company's construction program is estimated to require expenditures of approximately $588 million in 1991 and $1.6 billion from 1992 to 1994, which are expected to be financed primarily from internal sources. The estimated expenditures do not include any amounts for cooling towers at the Salem Generating Station or scrubbers at the Keystone and Conemaugh Stations that may be required for environmental reasons. Such construction expenditures, if required, may be substantial and may require external sources of financing. The construction program is subject to periodic review and revision to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

While the final order in the Limerick Unit No. 2 rate case yielded a rate increase substantially below the requested amount, the Company's liquidity has improved as a result of the $242 million rate increase that was allowed and the reduction of the common stock dividend.

OUTLOOK

On December 3, 1990, the Company agreed to a proposed settlement of all appeals arising from the April 19, 1990 decision of the PUC on the Company's requested rate increase to recover the costs of owning and operating Limerick Unit No. 2. The settlement must be approved by the PUC before it can be placed into effect.

Under the terms of the proposed settlement, the Company has conditionally agreed not to file a request for another base rate increase before 1994 and, through a base rate levelization plan, to eliminate some of the volatility in scheduled rate changes currently authorized by the PUC from 1991 through 1993. In return, the Company will have an opportunity to sell to other utilities up to 399 megawatts of the electric capacity found by the PUC to be near-term excess. Further, beginning in April 1994, the Company will be allowed to keep 16.5% of the energy cost savings from the operation of Limerick Units No. 1 and with its customers receiving the benefit of the remaining 5 of the savings. The Company's potential benefit from this proposed settlement is limited to $106 million per year through 1994 and to higher amounts thereafter. This agreement benefits customers by minimizing the potential for rate increases for at least four years and gives the Company an opportunity and incentive to gain back for its shareholders what was lost through the excess capacity ruling. (See note 2 of Notes to Financial Statements.)

On July 27, 1988, the co-owners of Peach Bottom filed suits against the Company in the United States District Court for the District of New Jersey concerning the shutdown of Peach Bottom ordered by the NRC. The plaintiffs seek compensation for certain replacement power costs which they incurred as a result of the shutdown. Additionally, the complaints allege that the co-owners were deprived of the benefits of their Peach Bottom ownership interests and investments, that they made payments to the Company for capital and operating and maintenance costs for which they received no benefit and that they incurred increased costs and lost profits. The suits include claims for punitive damages. Although the Company has taken the appropriate actions to defend itself against these claims, if the litigation ultimately is determined in favor of the plaintiffs, such determination could have a material adverse effect upon the Company's financial condition. (See note 3 of Notes to Financial Statements.)

On November 28, 1990, a class action suit was filed in ourt of Common Pleas for Philadelphia County on behalf of 144 former Company employees who retired between January and April 1990. The suit alleges that the Company fraudulently and/or negligently misrepresented or concealed facts concerning the initiation of the early retirement plan, thereby depriving plaintiffs of substantial pension and salary benefits. If the litigation ultimately is determined in favor of the plaintiffs, such determination is not expected to have a material adverse effect upon the Company's financial condition.

The Amendments to the Clean Air Act of 1990 (Act) will require, among other things, the reduction in emissions of sulfur dioxide (SO_2) by 10 million tons per year nationwide and provide a national limit on SO_2 emissions beginning in the year 2000. The Act will also require the reduction in emissions of oxides of nitrogen (NO_x) by approximately 2 million tons per year. The Company believes that its two service-area coal-fired plants, Eddystone and Cromby, will comply with the SO_2 limitations of the Act since both plants are equipped with flue gas desulfurization equipment, but could require installation of new equipment to meet the NO_X emission limitations to be established by the Environmental Protection Agency. The Company is currently studying the impact of the Act on its other fossil-fuel plants, in particular the Keystone and Conemaugh Stations of which the Company is a co-owner. If the Act requires the installation of equipment at the Keystone and Conemaugh Stations to meet SO_2 and NO_X standards, the Company's share of such capital costs could be substantial. The Company expects that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from its customers.

In December 1987, the Financial Accounting Standards Board (FASB) issued SFAS No. 96, "Accounting for Income Taxes," which must be implemented by 1992 under present guidelines. Adoption of SFAS No. 96 is not expected to have a material effect upon the Company's results of operations. In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which must be adopted by 1993. SFAS No. 106 is expected to significantly increase liabilities reported on the Company's consolidated balance sheets; but, depending on future regulatory actions taken by the PUC, may not have a material adverse effect on the Company's results of operations. (See note 18 of Notes to Financial Statements.)

The Limerick Unit No. 2 rate order provided for substantially less rate relief than requested by the Company and will have an adverse annual future earnings impact, compared to the historic level of earnings. Therefore, the Company will rely on its cost-reduction program and sales of the 399 megawatts of electric capacity (pending final PUC approval) to offset, or partially offset, the adverse effects on earnings caused by the rate order.

The future financial condition of the Company is also dependent upon the continued successful operation of the nuclear generating facilities in which it has ownership interests. During 1990, nuclear generation provided 65% of actual electric output for the year.

Consolidated Statements of Income

(Thousands of Dollars)	1990	1989	1988
	For the Years Ended December 31		
Operating Revenues			
Electric	**$3,320,132**	$3,019,976	$2,850,315
Gas	**385,029**	385,653	378,397
Total Operating Revenues	**3,705,161**	3,405,629	3,228,712
Operating Expenses			
Fuel and Energy Interchange	**691,205**	820,954	745,110
Other Operating Expenses	**879,628**	777,190	727,791
Early Retirement Plan	**249,252**	—	—
Maintenance	**339,650**	285,389	304,751
Depreciation	**357,540**	276,999	264,091
Income Taxes	**181,320**	195,765	206,774
Other Taxes	**238,852**	239,991	237,600
Total Operating Expenses	**2,937,447**	2,596,288	2,486,117
Operating Income	**767,714**	809,341	742,595
Other Income and Deductions			
Allowance for Other Funds Used During Construction	**27,184**	121,851	98,924
Capitalized Limerick Costs	**80,325**	82,008	73,074
Credit Related to Limerick Unit No. 1 Phase-In Plan	**15,325**	24,010	26,162
Adjustment to Limerick Plant Costs	**(263,860)**	—	
Income Tax Credits, Net	**86,869**	56,656	4[illegible]
Other, Net	**(25,060)**	4,010	7,900
Total Other Income and Deductions	**(79,217)**	288,535	249,527
Income Before Interest Charges	**688,497**	1,097,876	992,122
Interest Charges			
Long-Term Debt	**579,837**	569,689	524,131
Short-Term Debt	**31,034**	86,429	24,188
Allowance for Borrowed Funds Used During Construction	**(28,151)**	(148,649)	(122,147)
Net Interest Charges	**582,720**	507,469	426,172
Income before cumulative effect of accounting change	**105,777**	590,407	565,950
Cumulative effect as of January 1, 1990 of accounting change for unbilled operating revenues (Note 4)	**108,413**	—	—
Net Income	**214,190**	590,407	565,950
Preferred Stock Dividends	**90,319**	96,600	97,185
Earnings Applicable to Common Stock	**$ 123,871**	$ 493,807	$ 468,765
Average Shares of Common Stock Outstanding (Thousands)	**214,356**	208,901	201,517
Earnings per average common share before cumulative effect of accounting change (Dollars)	**$ 0.07**	$ 2.36	$ 2.33
Cumulative effect as of January 1, 1990 of accounting change for unbilled operating revenues (Dollars)	**0.51**	—	—
Earnings Per Average Common Share (Dollars)	**$ 0.58**	$ 2.36	$ 2.33
Dividends Per Common Share (Dollars)	**$ 1.45**	$ 2.20	$ 2.20

See notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Thousands of Dollars)	*For the Years Ended December 31* **1990**	1989	1988
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	**$214,190**	$590,407	$565,950
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Early Retirement Plan, Net of Cash Payments	**211,380**	—	—
Adjustment to Limerick Plant Costs	**263,860**	—	—
Cumulative Effect of Accounting Change	**(108,413)**	—	—
Depreciation and Amortization	**451,997**	318,403	291,277
Deferred Income Taxes	**(57,713)**	107,336	86,156
Investment Tax Credits, Net	**5,492**	(20,250)	(9,291)
Allowance for Other Funds Used During Construction	**(27,184)**	(121,851)	(98,924)
Increase in Capitalized Limerick Costs	**(80,325)**	(82,008)	(73,074)
Decrease (Increase) in Unrecovered Phase-In Plan Revenue	**57,345**	48,057	(61,231)
Credit Related to Limerick Unit No. 1 Phase-In Plan	**(15,325)**	(24,010)	(26,162)
Amortization of Leased Property	**33,500**	45,200	36,100
Limerick Unit No. 2 Precommercial Fuel Cost	**4,993**	29,655	—
Change in Current Assets and Other Current Liabilities	**49,660**	(40,749)	193,939
Change in Other Deferred Debits and Credits	**101,594**	44,065	(28,843)
Net Cash Provided by Operating Activities	**1,105,051**	894,255	875,897
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Utility Plant	**(541,190)**	(1,037,501)	(991,947)
Allowance for Other Funds Used During Construction	**27,184**	121,851	98,924
Sale of Merrill Creek Reservoir	**—**	—	145,330
(Increase) Decrease in Other Investments	**(17,574)**	(10,472)	3,154
Net Cash Used by Investing Activities	**(531,580)**	(926,122)	(744,539)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Common Stock	**84,828**	117,801	182,345
Issuance of Preferred Stock	**—**	—	50,000
Retirement of Preferred Stock Including Change in Other Paid-in Capital	**(224,219)**	(16,842)	(20,529)
Dividends on Preferred and Common Stock	**(398,192)**	(555,998)	(541,526)
Change in Dividends Payable	**(13,598)**	1,514	2,933
Expenses of Issuing Preferred and Common Stock	**(16,941)**	(223)	(1,632)
Issuance of Long-Term Debt	**205,000**	597,000	584,200
Retirement of Long-Term Debt	**(131,678)**	(331,905)	(395,702)
Premium on Retirement of Long-Term Debt	**—**	(24,315)	(2,800)
Net Borrowings Under Revolving Credit Agreements	**—**	225,000	150,000
Change in Short-Term Debt	**(43,500)**	112,000	(102,000)
Capital Lease Payments	**(33,500)**	(45,200)	(36,100)
Settlement of Safe Harbor Lease	**—**	(26,111)	—
Change in Escrow Funds	**—**	—	(30)
Net Cash (Used) Provided by Financing Activities	**(571,800)**	52,721	(130,841)
Net Change in Cash and Cash Equivalents	**$ 1,671**	$ 20,854	$ 517
Cash and Cash Equivalents at the beginning of the period	**$ 64,452**	$ 43,598	$ 43,081
Cash and Cash Equivalents at the end of the period	**$ 66,123**	$ 64,452	$ 43,598

See notes to financial statements.

CONSOLIDATED BALANCE SHEETS

ASSETS *(Thousands of Dollars)*	*December 31* **1990**	1989
UTILITY PLANT, AT ORIGINAL COST		
Electric	**$12,272,963**	$ 9,278,402
Gas	**670,870**	622,510
Common, used in all services	**152,010**	148,031
	13,095,843	10,048,943
Less: Accumulated Depreciation	**2,951,420**	2,637,214
	10,144,423	7,411,729
Nuclear Fuel, Net	**220,137**	296,357
Construction Work in Progress	**226,815**	3,012,678
Leased Property, Net	**241,271**	273,523
NET UTILITY PLANT	**10,832,646**	10,994,287
CURRENT ASSETS		
Cash and Temporary Cash Investments	**66,123**	64,452
Accounts Receivable, Net		
Customers	**326,374**	212,306
Other	**11,321**	43,455
Inventories, at average cost		
Fossil Fuel	**65,249**	[illegible]
Materials and Supplies	**129,614**	[illegible]
Unrecovered Phase-In Plan Revenue, Net	**119,157**	117,908
Compensated Absences	**56,477**	67,602
Other	**20,384**	18,486
TOTAL CURRENT ASSETS	**794,699**	713,988
DEFERRED DEBITS AND OTHER ASSETS		
Unrecovered Phase-In Plan Revenue, Net	**119,815**	163,084
Deferred Limerick Costs	**498,548**	475,064
Investments	**125,826**	108,252
Loss on Reacquired Debt	**129,321**	137,271
Other	**65,096**	89,171
TOTAL DEFERRED DEBITS AND OTHER ASSETS	**938,606**	972,842
TOTAL	**$12,565,951**	$12,681,117

See notes to financial statements.

CAPITALIZATION AND LIABILITIES

(Thousands of Dollars)	December 31 1990	1989
CAPITALIZATION		
Common Shareholders' Equity		
Common Stock	**$ 3,380,213**	$ 3,295,385
Other Paid-In Capital	**1,214**	5,311
Retained Earnings	**243,106**	444,049
	3,624,533	3,744,745
Preferred Stock		
Without Mandatory Redemption	**422,472**	622,472
With Mandatory Redemption	**330,922**	351,044
Long-Term Debt	**5,830,813**	5,762,741
TOTAL CAPITALIZATION	**10,208,740**	10,481,002
CURRENT LIABILITIES		
Notes Payable, Bank	**68,500**	112,000
Long-Term Debt Due Within One Year	**22,350**	17,100
Capital Lease Obligations Due Within One Year	**60,898**	73,726
Accounts Payable	**252,539**	232,318
Taxes Accrued	**154,972**	141,140
Deferred Energy Costs	**3,447**	(39,243)
Deferred Income Taxes	**49,723**	59,021
Interest Accrued	**108,637**	124,238
Dividends Payable	**27,491**	41,089
Compensated Absences	**56,477**	67,602
Other	**28,447**	20,525
TOTAL CURRENT LIABILITIES	**833,481**	849,516
DEFERRED CREDITS AND OTHER LIABILITIES		
Capital Lease Obligations	**180,373**	199,797
Deferred Income Taxes	**753,250**	809,486
Unamortized Investment Tax Credits	**247,693**	242,292
Pension Obligation for Early Retirees	**180,300**	—
Other	**162,114**	99,024
TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	**1,523,730**	1,350,599
COMMITMENTS AND CONTINGENCIES (Note 3)		
TOTAL	**$12,565,951**	$12,681,117

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

(All amounts in thousands)	Common Stock Shares	Common Stock Amount	Other Paid-In Capital	Retained Earnings	Preferred Stock Shares	Preferred Stock Amount
Balance, January 1, 1988	196,877	$2,995,239	$4,579	$387,070	9,616	$961,618
Net Income				565,950		
Cash Dividends Declared						
Preferred Stock						
(at specified annual rates)				(97,463)		
Common Stock ($2.20 per share)				(444,063)		
Expenses of Capital Stock Issues				(1,631)		
Issuance of Stock						
Public Sales	2,000	37,435			500	50,000
Employee Stock Ownership Plans	609	11,478				
Dividend Reinvestment and Stock Purchase Plan	7,103	133,432				
Redemptions			540		(211)	(21,068)
Balance, December 31, 1988	206,589	3,177,584	5,119	409,863	9,905	990,550
Net Income				590,407		
Cash Dividends Declared						
Preferred Stock						
(at specified annual rates)				(96,448)		
Common Stock ($2.20 per share)				(459,550)		
Expenses of Capital Stock Issues				(223)		
Issuance of Stock						
Dividend Reinvestment and Stock Purchase Plan*	5,387	117,801				
Redemptions			192		(170)	(17,034)
Balance, December 31, 1989	211,976	3,295,385	5,311	444,049	9,735	973,516
Net Income				**214,190**		
Cash Dividends Declared						
Preferred Stock						
(at specified annual rates)				**(87,920)**		
Common Stock ($1.45 per share)				**(310,272)**		
Expenses of Capital Stock Issues				**(16,941)**		
Issuance of Stock						
Dividend Reinvestment and Stock Purchase Plan	**4,977**	**84,828**				
Redemptions			**(4,097)**		**(2,201)**	**(220,122)**
Balance, December 31, 1990	**216,953**	**$3,380,213**	**$1,214**	**$243,106**	**7,534**	**$753,394**

*During 1989, the Employee Stock Ownership Plans were incorporated into the Dividend Reinvestment and Stock Purchase Plan.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

General

The consolidated financial statements of Philadelphia Electric Company (Company) include the accounts of its utility subsidiary companies, all of which are wholly owned. Non-utility subsidiaries are not material and are accounted for on the equity method. Accounting policies are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (PUC).

Revenues

Prior to 1990, the Company recorded revenues as billed to its customers on a monthly cycle billing basis. At the end of each month, there was an amount of unbilled electric and gas service that had been rendered from the latest date of each cycle billing to the month end. In December 1990, effective as of January 1, 1990, the Company began recording revenues for services provided but not yet billed to more closely match revenues with expenses. Adoption of the new accounting policy is discussed in note 4.

On June 27, 1989, the final phase of the electric rate increase approved by the PUC in its June 27, 1986 order became effective. This final phase is designed to recover, over approximately a three-year period, the unrecovered revenue under the Company's 1986 rate increase phase-in plan. Pursuant to a rate phase-in plan approved by the PUC in its electric rate order dated April 19, 1990, the Company is recording revenue equal to the full amount of the rate increase approved, based on kilowatt-hours rendered to customers. This plan is designed to recover the unrecovered revenue over approximately three years. Rate increases are billed from dates authorized or permitted to become effective by the regulatory authorities. As of December 31, 1990, the Company had approximately $239 million of Unrecovered Phase-in Plan Revenue, Net, which is classified as a current or other asset in the accompanying balance sheets according to whether it will be billed to customers within the next year or in subsequent years.

Fuel and Energy Cost Adjustment Clauses

Each of the Company's classes of service is subject to fuel adjustment clauses designed to recover or refund the differences between actual costs of fuel, energy interchange, purchased power and gas, and the amounts of such costs included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective adjustments to rates. Generally, such rates are adjusted every twelve months.

Effective December 1989, the PUC permitted the Company to begin recovery, through a separate purchased gas costs clause, of approximately 90% of take-or-pay costs billed to the Company by its interstate pipeline suppliers.

Effective April 20, 1990, the PUC established an electric Energy Cost Adjustment (ECA) which, in addition to reconciling fuel costs and revenues, incorporates a nuclear performance standard which allows for financial bonuses or penalties depending upon whether the Company's system nuclear capacity factor exceeds or falls below a specified range (see note 2).

Nuclear Fuel

Nuclear fuel is capitalized and charged to fuel expense on the unit of production method. Estimated costs of nuclear fuel disposal are charged to fuel expense as the related fuel is consumed. The Company's share of nuclear fuel at the Peach Bottom Atomic Power Station (Peach Bottom) and Salem Generating Station (Salem) is accounted for as a capital lease. Nuclear fuel at the Limerick Generating Station (Limerick) is owned.

Depreciation and Decommissioning

For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on the straight-line method and, for tax purposes, generally over shorter lives on accelerated methods. Annual depreciation provisions for financial reporting purposes, expressed as a percent of average depreciable utility plant in service, were approximately 2.79% in 1990, 2.92% in 1989 and 2.87% in 1988.

The Company's ownership portion of the estimated costs for decommissioning nuclear generating stations as approved for ratemaking purposes is $643 million as of December 31, 1990. The associated annual expense, which is recovered through rates, currently is being charged to operations consistent with amounts approved for ratemaking purposes. The amounts charged are deposited in escrow and trust accounts and invested for funding of future costs (see note 3).

Income Taxes

Deferred income taxes are provided for differences between book and taxable income to the extent approved for ratemaking purposes. In addition, the effects of the Alternative Minimum Tax (AMT) are normalized. Investment Tax Credit (ITC) is deferred and amortized to income over the estimated useful lives of the related utility plant. ITC related to plant in service, not included in rate base, is accounted for on the flow-through method. ITC currently utilized applies to transition property only.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

AFUDC is a non-cash item which is defined in the Uniform System of Accounts as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFUDC is recorded as a charge to Construction Work In Progress, and the credits are to Interest Charges for the pretax cost of borrowed funds and to Other Income and Deductions for the remainder as the allowance for other funds. The rates used for capitalizing AFUDC, which averaged 9.01% in 1990 and 9.50% in 1989 and 1988, are computed under a method prescribed by the regulatory authorities. The rate is a net after-tax rate and the current income tax reductions applicable to the interest charges capitalized are recorded in Other Income and Deductions. In addition, the PUC permitted the Company to record, until January 8, 1990, the commercial operation date of Limerick Unit No. 2, a carrying charge equivalent to AFUDC on 50% of Limerick common facilities which is deemed associated with Unit No. 2; the credit is to Capitalized Limerick Costs. AFUDC and carrying charges on 50% of Limerick common facilities are not included in regular taxable income and the depreciation of capitalized AFUDC and the amortization of carrying charges are not tax deductible. Under the Tax Reform Act of 1986, AFUDC and carrying charges were considered tax preference items when computing the Company's 1989 and 1988 AMT.

GAS EXPLORATION AND DEVELOPMENT JOINT VENTURES

The Company has invested in several joint ventures for exploring and drilling for natural gas. Costs are capitalized under the full-cost method and charged to operations commensurate with production.

NUCLEAR OUTAGE COSTS

Effective in 1990, incremental nuclear maintenance and refueling outage costs are accrued over the unit operating cycle of approximately eighteen months. For each unit, a reserve for incremental nuclear maintenance and refueling outage expense is estimated based upon the latest planned outage schedule and estimated costs for the outage. Differences between accrued and actual expense for the outage are adjusted when such differences are known (see note 4).

CAPITALIZED SOFTWARE COSTS

Software and installation projects which exceed $5 million are capitalized. At December 31, 1990, capitalized software costs totalled $4.5 million. Such capitalized amounts are amortized ratably over four years when the projects become operational.

GAINS AND LOSSES ON REACQUIRED DEBT

Gains and losses on reacquired debt are deferred and amortized to interest expense over the period approved for ratemaking purposes.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income.

2. RATE MATTERS

LIMERICK UNIT NO. 2 ELECTRIC RATE ORDER

On July 21, 1989, the Company filed with the PUC a request for an electric rate increase designed to yield $549 million annually, net of $142 million of estimated Limerick Unit No. 2 fuel savings, principally to recover costs associated with Limerick Unit No. 2 and associated common facilities.

In its final order dated April 19, 1990, the PUC approved a $242 million annual increase to be phased in over approximately three years. The Company was denied recovery of certain plant costs, including deferred Limerick costs, resulting in a pre-tax loss of $264 million. Also, as part of the rate order, the Company was denied recovery of other costs deferred pending regulatory approval resulting in an additional pre-tax loss of $32 million.

The PUC order also reduced the Company's requested increase by $106 million resulting from a disallowance of a return on common equity for 399 megawatts (mW) of Limerick Unit No. 2 and associated common facilities, finding that the Company has 399 mW of near-term excess capacity.

As part of the PUC final order, the PUC approved recovery of $285 million of deferred Limerick costs representing carrying charges and depreciation associated with 50% of Limerick common facilities. These costs are included in rate base and are being recovered over the life of Limerick. The PUC also approved recovery of $137 million of Limerick Unit No. 1 costs which had previously been deferred pursuant to a Declaratory Order dated September 28, 1984. These costs are being recovered over a ten-year period without a return on investment.

New tariffs implementing the PUC final order became effective on April 20, 1990.

On May 18, 1990, the Company filed with the Commonwealth Court of Pennsylvania a petition for review of the PUC's final order. The Company appealed the excess capacity disallowance and the disallowance due to alleged imprudent construction delays. The Office of Consumer Advocate (OCA) filed a Notice of Appeal, challenging the excess capacity disallowance and the permitted recovery of Limerick Unit No. 1 Declaratory Order costs.

Proposed Settlement of Appeals

On December 3, 1990, the Company entered into a joint petition for settlement of all appeals arising from the PUC's April 19, 1990 Limerick Unit No. 2 order. The agreement, which must be approved without modification by the PUC, was reached with the OCA and other intervenors. As part of the settlement, the Company would be allowed to retain for shareholders any proceeds above the average energy cost for sales of up to 399 mW of capacity and/or associated energy. Beginning on April 1, 1994, the proposed settlement also provides for the Company to share in the benefits which result from the operation of both Limerick Unit No. 1 and Unit No. 2 through the retention of 16.5% of the energy savings. Through 1994, the Company's potential benefit from the sale of up to 399 mW of capacity/energy and the retained Limerick energy savings is limited to $106 million per year, with any excess accruing to customers. Beginning in 1995, in addition to retaining the first $106 million, the Company would share in any excess above $106 million with the Company's share of the excess increasing from 10% in 1995 to 30% in 1997 and thereafter.

In return, except as allowed by the PUC or under terms of the settlement, the Company would not file a base electric rate increase before April 1994. This would not preclude emergency or single-issue rate filings (e.g., a substanial change in costs associated with new legislation or regulations). Further, both the Company and the OCA would withdraw their appeals and the Company would consolidate the previously authorized Limerick Unit No. 1 and Unit No. 2 phase-in plans and levelize associated rate increases between May 1, 1991 and December 31, 1992. The proposed levelization would have no net impact on income. Additionally, the Company would establish advisory committees dealing with demand side management issues and the evaluation and improvement of the Company's Customer Assistance Program. Approval by the PUC is pending.

Limerick Unit No. 2 Declaratory Order

In accordance with a Declaratory Order of the PUC dated May 3, 1989, and modified on February 23, 1990, the Company has deferred the operating and maintenance expenses, depreciation and accrued carrying charges on its capital investment in Limerick Unit No. 2 and 50% of Limerick common facilities during the period from January 8, 1990, the commercial operation date of Limerick Unit No. 2, until April 20, 1990. At December 31, 1990, these costs included in Deferred Limerick Costs totalled approximately $91 million. Recovery of these costs deferred pursuant to the Declaratory Order, which is not assured, will be addressed by the PUC in a subsequent electric rate case.

Energy Cost Adjustment (ECA)

Effective April 20, 1990, the PUC established an electric ECA which, in addition to reconciling fuel costs and revenues, incorporates a nuclear performance standard which allows for financial bonuses or penalties depending on whether the Company's system nuclear capacity factor exceeds or falls below a specified range. The bonuses or penalties are based upon average system replacement energy costs. If the capacity factor is within the range of 60-70%, there is no bonus or penalty. If the capacity factor exceeds the specified range, progressive incremental bonuses are earned and, if the capacity factor falls below the specified range, progressive incremental penalties are incurred.

For the year ended December 31, 1990, the Company incurred neither a bonus nor a penalty.

3. Commitments and Contingencies

The Company has incurred substantial commitments in connection with its construction program. Construction expenditures are estimated to be approximately $588 million for 1991 and $1.6 billion for 1992-1994. These estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

The Price-Anderson Act (Act), as amended, sets the limit of liability of approximately $7.8 billion for claims that could arise from an incident involving any licensed nuclear facility in the nation. The limit is subject to increase to reflect the effects of inflation and changes in the number of licensed reactors. All utilities with nuclear generating plants, including the Company, obtained coverage for these potential claims through a combination of private insurances of $200 million and mandatory participation in a financial protection pool. Under the amended law, all nuclear reactor operators or owners can be assessed up to $63 million per reactor, payable at $10 million per reactor per incident per year. This assessment is subject to an additional surcharge of 5% if the total amount of claims and legal costs exceeds the basic assessment.

If the damages from an incident at a licensed nuclear facility exceed $7.8 billion, the President of the United States is to submit to Congress a plan for providing additional compensation to the injured parties. Congress could impose further revenue-raising measures on the nuclear industry to pay claims. The Act and the extensive regulation of nuclear safety by the NRC do not preempt claims under state law for personal, property or punitive damages related to radiation hazards.

The Company maintains property insurance, including contamination coverage, for loss or damage to its nuclear facilities. Although it is not possible to determine the total amount of the loss that may result from an occurrence at these facilities, the Company maintains the maximum amount of insurance presently available, its proportionate share of $2.325 billion for each station. Under the terms of the various insurance agreements, the Company could be assessed up to $22 million for losses incurred at any plants insured by the insurance companies. The Company is self-insured to the extent that any losses may exceed the maximum amount of insurance available. Any such losses, if not recovered through the ratemaking process, could have a material adverse effect on the financial condition of the Company.

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major outage at a nuclear station. The premium for this coverage is subject to an assessment for adverse loss experience. The Company's maximum share of any assessment is $18 million per year.

On July 27, 1988, Public Service Enterprise Group Incorporated and its subsidiary Public Service Electric and Gas Company (PSE&G) filed an action against the Company in the United States District Court for the District of New Jersey (District Court) concerning the shutdown of Peach Bottom ordered by the Nuclear Regulatory Commission (NRC); on the same date, Atlantic City Electric Company (Atlantic Electric) and Delmarva Power and Light Company (Delmarva) filed a similar suit against the Company in the same court. The two suits allege that the Company breached the provisions of the Owners Agreement pursuant to which the four companies own Peach Bottom and under which the Company operates Peach Bottom. These suits also variously allege negligence, gross negligence, failure to disclose, fraudulent misrepresentation and negligent misrepresentation. The plaintiffs seek compensation for certain replacement power costs they incurred as a result of the shutdown of Peach Bottom and for increased operating and maintenance costs and lost profits. PSE&G and Atlantic Electric further allege that they were required by the New Jersey Board of Public Utilities to provide their customers with a credit because of the Peach Bottom shutdown. Neither of the complaints specifies any dollar amount of damages. Both complaints include claims for punitive damages. The Company has filed contingent breach-of-contract counterclaims against PSE&G for outages and NRC penalties at the Salem Generating Station (which is operated by PSE&G and 42.59% owned by the Company), and PSE&G has amended its complaint to include additional contingent breach-of-contract claims related to other alleged outages and NRC penalties at Peach Bottom. Action (including discovery) on the Company's counterclaims and these additional claims of PSE&G has been stayed. In addition, the co-owners have amended their complaints to allege that in violation of its purported fiduciary obligations to the co-owners, the Company misallocated personnel and other resources to Limerick and to seek an accounting and disgorgement of economic benefits allegedly obtained by the Company. The parties to the litigation are currently engaged in ongoing discovery. On December 18, 1990, the District Court issued an order that the fact discovery process relating to all remaining liability issues in the case shall be limited to the period ending May 31, 1991. If the litigation is ultimately determined favorably to the plaintiffs, such determination could have a material adverse effect on the Company's financial condition.

A settlement was reached in the consolidated actions brought on behalf of the Company by certain shareholders of the Company (plaintiffs) against the Company's former Chairman and former President, alleging mismanagement and negligence in connection with the events leading to the shutdown of Peach Bottom by the NRC on March 31, 1987. Under the terms of a settlement agreement signed on August 30, 1990, two of the Company's director- and officer-liability insurance carriers paid $34.5 million. The settlement became final on October 30, 1990. The plaintiffs' recovery, less $6.5 million attorneys' fees and expenses, was paid to the Company on November 1, 1990. Recognition of this recovery was deferred, pending the conclusion of the litigation brought by the Peach Bottom co-owners. The Company will also arbitrate an insurance coverage issue with a third insurance carrier. Depending on the results of the arbitration, an additional $9 million may be paid as part of the settlement. Counsel for the plaintiffs will receive approximately 25% of any recovery resulting from the arbitration.

In conjunction with the Company's Limerick Unit No. 2 electric rate order, the PUC recognized a revised decommissioning cost estimate based upon total cost. The Company's share of this revised cost is $643 million expressed in 1990 dollars. Under a contract with the U.S. Department of Energy (DOE), the DOE is obligated ultimately to take possession of all spent nuclear fuel generated by the Company's nuclear units for long-term storage. The contract currently requires that a spent fuel disposal fee of one mill ($.001) per net kilowatthour generated be paid to the DOE. The fee may be adjusted prospectively in order to ensure full cost recovery. The Company's Peach Bottom and Limerick generating units have on-site storage facilities with the capacity to store spent fuel discharged from the units through the late-1990's and by further modifying spent fuel storage facilities, capacity could be provided to approximately 2010. Salem has spent fuel storage capacity through 1996 fo Unit No. 1 and 2000 for Unit No. 2. PSE&G plans to expa fuel storage capacity of Salem. The Company believes that th ultimate cost of decommissioning and spent fuel disposal will be recoverable through adjustments of rates.

On November 28, 1990, 33 former employees of the Company who retired between February and April 1990 filed a class action suit against the Company in the Court of Common Pleas for Philadelphia County concerning the Company's one-time early retirement plan on behalf of all 144 persons who retired from the Company between January and April 1990. The suit alleges that the Company fraudulently and/or negligently misrepresented or concealed facts which induced plaintiffs to retire or not to defer retirement immediately before the initiation of the early retirement plan, thereby depriving plaintiffs of substantial pension and salary benefits. The complaint does not specify any dollar amount of damages. The plaintiffs seek, among other things, damages representing increased pension benefits and nine months salary pursuant to the terms of the Company's early retirement plan as well as punitive damages. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

The Company is involved in various matters of litigation, including environmental matters. The ultimate outcome of these matters is not expected to have a material adverse effect on the Company's financial condition.

4. CHANGES IN ACCOUNTING

[illegible]cember 1990, effective January 1, 1990, the Company [illegible] recording operating revenues for services provided but not yet billed to more closely match revenues with expenses. Previously, the Company recognized operating revenues when services were billed (see note 1). The cumulative effect of the change on the periods prior to January 1, 1990, was $108 million, net of income tax effect of $2 million, or $0.51 per share. The effect of the change upon net income for 1990 and the pro forma effects for 1989 and 1988 were not considered material. The income tax expense applicable to the aforementioned unbilled revenues was recorded in the years reported for tax purposes in accordance with the ratemaking treatment.

Also in December 1990, effective January 1, 1990, the Company adopted a change in accounting method to accrue for incremental nuclear maintenance and refueling outage costs for nuclear plants over the period of the unit operating cycle, which is approximately eighteen months. For 1989 and prior, the Company recognized such costs as incurred during the outage period. The after-tax effect of this accounting change decreased 1990 net income by $17 million or $0.08 per share which includes the cumulative effect on periods prior to January 1, 1990. The amount of the cumulative effect was not considered material. The pro forma effects of the change upon net income for 1989 and 1988 were not considered material.

5. EARLY RETIREMENT PLAN

On May 25, 1990, the Company's Board of Directors approved a special, one-time early retirement plan for employees who were fifty years of age or older and had five or more years of credited service as of December 31, 1990. In accordance with Statement of Financial Accounting Standards (SFAS) No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the estimated costs associated with the program of $249 million ($150 million, net of taxes) were recognized in the third quarter of 1990.

6. RETIREMENT BENEFITS

The Company and its subsidiaries have non-contributory trusteed retirement plans applicable to all regular employees. The benefits are based primarily upon employees' years of service and average earnings prior to retirement. The Company's funding policy is to contribute, at a minimum, amounts sufficient to meet ERISA requirements. During 1990, approximately 86% of pension costs were charged to operations and the remainder, associated with construction labor, to the cost of new utility plant.

Pension cost was $12,206,000 in 1990, $7,532,000 in 1989 and $7,101,000 in 1988. Pension costs for 1990, 1989 and 1988 included the following components:

(Thousands of Dollars)	**1990**	1989	1988
Service cost—Benefits earned during the period	**$30,365**	$ 25,570	$ 24,073
Interest cost on projected benefit obligations	**99,554**	91,318	85,779
Actual return on plan assets	**(24,735)**	(263,191)	(134,647)
Amortization of transition asset	**(4,539)**	(4,539)	(4,539)
Amortization and deferral	**(88,439)**	158,374	36,435
Net pension cost	**$12,206**	$ 7,532	$ 7,101

CHANGE IN NET PERIODIC PENSION COST

The change in net periodic pension cost in 1990, 1989 and 1988 was accounted for as follows:

(Thousands of Dollars)	**1990**	1989	1988
Change in number, characteristics and salary levels of participants and net actuarial gain	**$(3,996)**	$(198)	$ 16,189
Change in plan provisions	**799**	629	375
Change in actuarial assumptions	**7,871**	—	(38,921)
Net change	**$4,674**	$ 431	$(22,357)

Plan assets consist principally of common stock, U.S. government obligations and other fixed income instruments. In determining pension costs, the assumed long-term rate of return on assets was 9.5% for 1990, 1989 and 1988.

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 8.25% and 8.75% at December 31, 1990 and 1989, respectively. The average rate of increase in future compensation levels ranged from 5% to 7% at December 31, 1990, 1989 and 1988.

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. The funded status of the plan at December 31, 1990 and 1989 is summarized as follows:

(Thousands of Dollars)	**1990**	1989
Actuarial present value of accumulated plan benefit obligations:		
Vested benefit obligations	**$(1,155,400)**	$ (878,074)
Accumulated benefit obligation	**(1,161,220)**	(882,504)
Projected benefit obligation for services rendered to date	**$(1,438,604)**	$(1,207,617)
Plan assets at fair value	**1,373,764**	1,399,656
Funded Status	**(64,840)**	192,039
Unrecognized transition asset	**(67,477)**	(72,016)
Unrecognized prior service costs	**98,893**	107,376
Unrecognized net (gain)	**(150,997)**	(221,484)
(Pension liability) prepaid cost	**$ (184,421)**	$ 5,915

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees will become eligible for these benefits if they reach retirement age while still working for the Company. These benefits and similar benefits for active employees are provided by an insurance company whose premiums are based upon the benefits paid during the year. The Company recognizes the cost of providing these benefits by charging the annual insurance premiums to expense. The cost of providing those benefits for approximately 5,200 and 4,100 retirees during 1990, and 1989 and 1988 respectively, is not separable from the cost of providing benefits for approximately 10,500 and 11,100 active employees for the same periods. Total premiums amounted to $54 million, $42 million and $39 million for 1990, 1989 and 1988, respectively.

7. COMMON STOCK

At December 31, 1990 and 1989, Common Stock without par value consisted of 500,000,000 and 240,000,000 shares authorized and 216,952,649 and 211,975,905 shares outstanding, respectively. At December 31, 1990, there were 9,522,333 shares reserved for issuance under stock purchase plans.

In 1989, the Company established the Long-Term Incentive Plan (Plan) for certain full-time salaried employees of the Company. The types of long-term incentive awards which may be granted under the Plan are non-qualified options to purchase shares of the Company's common stock, dividend equivalents and shares of restricted stock. Pursuant to the Plan, 4,800,000 shares of stock were authorized for issuance. At December 31, 1990 and 1989, there were options for 1,126,675 and 938,000 shares outstanding, respectively (at an average price of $21.18 and $22.13, respectively) of which options for 884,000 and 60,000 shares were exercisable. During 1990 and 1989, options for 274,177 and 961,000 shares were granted and options for 85,502 and 23,000 shares expired. As of December 31, 1990, no options had been exercised pursuant to the Plan.

8. PREFERRED AND PREFERENCE STOCK

At December 31, 1990, Series Preference Stock consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 1990 and 1989, cumulative Preferred Stock, no par value and $100 par, respectively, consisted of 15,000,000 shares authorized.

	Current Redemption Price **(a)**	Refunding Restricted Prior to **(b)**	Shares Outstanding **1990**	Shares Outstanding 1989	Amount *(Thousands of Dollars)* **1990**	Amount *(Thousands of Dollars)* 1989
Series (without mandatory redemption)						
$14.15 **(c)**	—		**—**	500,000	**—**	$ 50,000
$13.35 **(c)**	—		**—**	750,000	**—**	75,000
$12.80 **(c)**	—		**—**	750,000	**—**	75,000
$10.75 **(d)**	**(d)**	**(d)**	**500,000**	500,000	**$ 50,000**	50,000
$9.50	$101.00		**750,000**	750,000	**75,000**	75,000
$8.75	101.00		**650,000**	650,000	**65,000**	65,000
$7.85	101.00		**500,000**	500,000	**50,000**	50,000
$7.80	101.00		**750,000**	750,000	**75,000**	75,000
$7.75	101.00		**200,000**	200,000	**20,000**	20,000
$4.68	104.00		**150,000**	150,000	**15,000**	15,000
$4.4	112.50		**274,720**	274,720	**27,472**	27,472
$4.3	102.00		**150,000**	150,000	**15,000**	15,000
$3.80	106.00		**300,000**	300,000	**30,000**	30,000
			4,224,720	6,224,720	**422,472**	622,472
Series (with mandatory redemption) **(e)**						
[illegible]25	105.00		**250,000**	300,000	**25,000**	30,000
[illegible]25	108.70		**500,000**	500,000	**50,000**	50,000
$10	—		**—**	44,000	**—**	4,400
$9.875	109.88	8-1-92	**650,000**	650,000	**65,000**	65,000
$9.52	103.00		**276,321**	279,523	**27,632**	27,952
$9.50 1986 Series	109.50	11-1-91	**720,000**	750,000	**72,000**	75,000
$8.75 1978 Series	102.57		**266,900**	300,200	**26,690**	30,020
$7.325	102.34		**390,000**	420,000	**39,000**	42,000
$7	101.00		**256,000**	266,720	**25,600**	26,672
			3,309,221	3,510,443	**330,922**	351,044
Total Preferred Stock			**7,533,941**	9,735,163	**$753,394**	$973,516

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.
(b) Prior to the date specified, none of the shares of each series indicated may be redeemed through refunding at an interest or dividend rate which is less than the dividend rate of such series.
(c) Ownership of these series of preferred stock was evidenced by depositary receipts, each representing one-tenth of a share of preferred stock.
(d) The dividend rate through April 30, 1993 is $10.75 per annum, and the rate for each subsequent dividend period, either a long-term period (1-10 years) or a short-term period (49 days), will be established by an auction held on the business day next preceding the beginning of each such period. The issue is redeemable during any long-term period only on the last day of the period or following an unsuccessful auction, in an aggregate number which constitutes one or more units (1,000 shares), at a price of $100 per share, plus accrued and unpaid dividends to the redemption date on the shares redeemed. On any dividend payment date with respect to a short-term period, units are redeemable, in whole or in part, at the option of the Company at a price of $100,000 per unit, plus an amount equal to accrued and unpaid dividends to the date of redemption.
(e) Sinking fund requirements ($100 per share) in the period 1991-1995 are as follows: 1991–$20,462,000; 1992–$21,580,000; 1993–$38,380,000; 1994–$48,380,000; 1995–$28,380,000.

9. LONG-TERM DEBT

(Thousands of Dollars)	Series	Due	*At December 31* **1990**	1989
First and Refunding Mortgage Bonds **(a)**	14%	1990	—	$ 11,000
	14%	1991	**$ 11,000**	11,000
	14%	1992	**11,000**	11,000
	6½%–14%	1993	**71,000**	71,000
	4½%–14%	1994	**181,000**	181,000
	9%–10⅞%	1995	**202,800**	203,781
	6⅛%–15¼%	1996-2000	**1,074,025**	986,969
	7⅜%–9⅝%	2001-2005	**380,000**	380,000
	6%–10¼%	2006-2010	**363,500**	363,500
	10½%–11¾%	2011-2015	**536,000**	536,000
	8⅞%–12⅛%	2016-2020	**1,134,000**	1,034,000
Total First and Refunding Mortgage Bonds			**3,964,325**	3,789,250
Notes Payable—Banks	**(b)**	1991-1996	**497,000**	572,000
Revolving Credit and Term Loan Agreement	**(c)**	1995-1997	**525,000**	525,000
Pollution Control Notes	5½%–13%	1997-2013	**263,700**	265,315
Debentures	9.85%–11%	1993-2011	**537,000**	556,850
Medium-Term Notes	**(d)**	1996-2005	**85,000**	80,000
Sinking Fund Debentures—Philadelphia Electric Power Company, a Subsidiary	4½%	1995	**12,516**	12,758
Unamortized Debt Discount and Premium, Net			**(31,378)**	(21,332)
Total Long-Term Debt			**5,853,163**	5,779,841
Due Within One Year **(e)**			**22,350**	17,100
Long-Term Debt included in Capitalization **(f)**			**$5,830,813**	$5,762,741

(a) Utility Plant is subject to the lien of the Company's mortgage.
(b) At various interest rates.
(c) The Company has a $525 million revolving credit and term loan agreement with a group of banks. The revolving credit arrangement converts into a term loan in November 1994. The borrowings are due in six semi-annual installments with the first payment due 6 months after the conversion into the term loan. Interest on outstanding borrowings is based on specific formulas selected by the Company involving yields on several types of debt instruments. There is an annual commitment fee of 0.15% on the unused amount. At December 31, 1990, $525 million was outstanding under this agreement. The Company also has a $175 million revolving credit and term loan agreement with a group of banks which expires in 1992. There is an annual commitment fee of 0.30% on the unused amount. At December 31, 1990, no amount was outstanding under this agreement and at December 31, 1989 (prior to the reduction in the commitment) $525 million was outstanding under this agreement.
(d) The Company has a program for the issuance of up to $200 million of medium-term notes collateralized by mortgage bonds. These notes will be offered at varying maturities and interest rates to be set at the time of sale. As of December 31, 1990 and 1989, the Company had outstanding $85 million and $80 million under this program at an average coupon rate of 9.05% and 9.06%, respectively.
(e) Long-term debt maturities in the period 1992-1995 are as follows: 1992—$105,413,000; 1993—$372,348,000; 1994—$214,748,000; 1995—$411,523,000.
(f) The annualized interest on long-term debt at December 31, 1990, was $567.6 million of which $394.5 million was associated with mortgage bonds and $173.1 million was associated with other long-term debt.

10. SHORT-TERM DEBT

(Thousands of Dollars)	**1990**	1989	1988
Average Borrowings	**$60,344**	$94,000	$114,164
Average Interest Rates, Computed on Daily Basis	**8.85%**	9.98%	8.18%
Maximum Borrowings Outstanding	**$187,000**	$248,500	$216,000
Average Interest Rates at December 31:	**8.98%**	9.61%	—

At December 31, 1990, the Company had $68.5 million in short-term debt outstanding under formal and informal lines of credit with banks aggregating approximately $335 million. The Company generally does not have formal compensating balance arrangements with these banks.

11. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 1990, include unbilled operating revenues of $111.5 million related to the change in accounting, effective January 1, 1990 (see note 4). Accounts receivable at December 31, 1990 are net of allowance for uncollectible accounts of $30 million.

The Company is party to an agreement, expiring in 1993, with a financial institution whereby it can sell on a daily basis and with limited recourse up to $200 million of an undivided interest in designated accounts receivable. At December 31, 1990, the Company had sold a $200 million interest in accounts receivable under this agreement. The Company retained the servicing responsibility for these receivables. The average interest rate computed on a daily basis on the portion of the accounts receivable sold but not yet collected was 8.40%, 9.45% and 9.39% for 1990, 1989 and 1988, respectively.

By terms of this agreement, under certain circumstances, up to $75 million of unrecovered phase-in plan revenue could be included in the pool of eligible receivables. At December 31, 1990 and 1989, no unrecovered revenue was included in the pool of eligible receivables.

12. INCOME TAXES

(Thousands of Dollars)	**1990**	1989	1988
INCLUDED IN OPERATING INCOME:			
Federal			
Current	**$137,554**	$ 56,342	$ 57,484
Deferred	**15,884**	160,972	132,742
Investment Tax Credit, Net	**15,638**	(20,250)	(9,291)
State			
Current	**44,347**	14,128	22,982
Deferred	**(32,102)**	(15,427)	2,857
INCLUDED IN OTHER INCOME AND DEDUCTIONS:			
Federal			
Current	**(23,150)**	(1,063)	16,578
Deferred	**(42,096)**	(41,647)	(48,732)
Investment Tax Credit, Net	**(10,146)**	—	—
State			
Current	**(12,078)**	(17,384)	(10,602)
Deferred	**601**	3,438	(711)
Income Tax Effect of Cumulative Effect of Accounting Change for Unbilled Operating Revenues	**(1,888)**	—	—
TOTAL	**$ 92,564**	$139,109	$163,307

ITC reduced federal income taxes currently payable by $31 million in 1990, $16 million in 1989, and $23 million in 1988. Under the Tax Reform Act of 1986, ITC has been repealed effective January 1, 1986 with the exception of transition property. The Company believes that Limerick Unit No. 2 qualifies as transition property eligible for ITC.

Approximately $191 million of additional business credits generated from 1984 through 1990 have not been utilized due to limitations based on taxable income. These credits, which expire between 1999 and 2005, may be used to reduce federal income taxes in future years.

Since 1987, the Company's current tax liability was determined under the AMT method resulting in a cumulative tax credit of $182 million which can be utilized in future years when regular tax liability exceeds AMT liability.

For a number of years, the Company has used accelerated depreciation for income tax purposes and straight-line depreciation for financial reporting purposes. Deferred taxes were recorded only on those timing differences normalized for ratemaking. The cumulative net amount of such timing differences for which deferred taxes were not recorded was approximately $650 million at December 31, 1990. Since the Company expects to charge customers for taxes when the timing differences reverse, the tax effect of such timing differences is not recorded currently.

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

(Thousands of Dollars)	**1990**	1989	1988
Depreciation and Amortization	**$119,943**	$ 89,626	$ 72,966
Deferred Energy Costs	**(13,761)**	(7,664)	17,332
Precommercial Operation of Limerick Unit No. 2	**(1,221)**	59,396	—
Deferred Limerick Unit No. 2 Costs	**8,547**	—	—
Early Retirement Plan	**(83,588)**	—	—
Incremental Nuclear Maintenance and Refueling Outage Costs	**(11,574)**	—	—
Uncollectible Accounts Receivable	**(15,813)**	—	—
Reacquired Debt	**(4,526)**	6,039	(1,874)
Unrecovered Revenue	**(24,939)**	(18,122)	23,425
Alternative Minimum Tax	**(20,478)**	(48,873)	(29,776)
Adoption of SFAS 90 and SFAS 92	**(7,283)**	23,993	25,087
Gain on Sale of Merrill Creek Reservoir	**—**	—	(19,899)
Other	**(3,020)**	2,941	(1[illegible]
TOTAL	**$(57,713)**	$107,336	$ 86,[illegible]

The total income tax provisions differed from amounts computed by applying the federal statutory tax rate to income and adjusted income before income taxes for the following reasons:

(Thousands of Dollars)	**1990**	1989	1988
Net Income	**$214,190**	$590,407	$565,950
Total Income Tax Provision	**92,564**	139,109	163,307
Income Before Income Taxes	**306,754**	729,516	729,257
Deduct: Allowance for Funds Used During Construction	**55,335**	270,500	221,071
Limerick Carrying Charges	**80,325**	82,008	73,074
ADJUSTED INCOME BEFORE INCOME TAXES	**$171,094**	$377,008	$435,112
Income Taxes on Above at Federal Statutory Rate of 34%	**$ 58,172**	$128,183	$147,938
Increase (Decrease) due to:			
Depreciation Timing Differences Not Normalized	**20,647**	2,612	5,493
Effects of SFAS 90 and SFAS 92	**69,284**	5,761	5,993
Cumulative Effect of Accounting Change for Unbilled Operating Revenues	**(37,910)**	—	—
Unbilled Revenues Not Normalized	**8,769**	13,551	12,903
State Income Taxes, Net of Federal Income Tax Benefits	**507**	(10,062)	9,587
Amortization of Investment Tax Credit	**(20,320)**	(311)	(11,903)
Other, Net	**(6,585)**	(625)	(6,704)
TOTAL INCOME TAX PROVISION	**$ 92,564**	$139,109	$163,307
Provision for Income Taxes as a Percent of:			
Income Before Income Taxes	**30.2%**	19.1%	2[illegible]
Adjusted Income Before Income Taxes	**54.1%**	36.9%	37.5%

13. Taxes, Other Than Income—Operating

(Thousands of Dollars)	**1990**	1989	1988
Gross Receipts	**$148,274**	$149,210	$137,172
Capital Stock	**21,817**	25,848	33,519
Realty	**33,632**	35,296	35,975
Payroll	**30,854**	28,040	27,095
Other	**4,275**	1,597	3,839
Total	**$238,852**	$239,991	$237,600

14. Leases

Leased property included in Utility Plant at December 31	**1990**	1989
	(Thousands of Dollars)	
Nuclear Fuel	**$542,851**	$534,607
Electric Plant	**2,317**	9,325
Common Plant	**—**	1
Gross Leased Property	**545,168**	543,933
Accumulated Amortization	**(303,897)**	(270,410)
Net Leased Property	**$241,271**	$273,523

The nuclear fuel obligation is amortized as the fuel is consumed. Amortization of leased property totaled $33.5 million, $45.2 million and $36.1 million for the years ended December 31, 1989 and 1988, respectively. Other operating expenses included interest on capital lease obligations of $15.7 million, $19.0 million and $15.4 million in 1990, 1989 and 1988, respectively. Minimum future lease payments as of December 31, 1990 were:

Ending December 31	Capital Leases	Operating Leases	Total
	(Thousands of Dollars)		
1991	$ 80,919	$ 105,560	$ 186,479
1992	75,691	97,703	173,394
1993	66,647	96,496	163,143
1994	50,288	94,500	144,788
1995	14,297	93,178	107,475
Remaining Years	1,543	664,287	665,830
Total Minimum Future Lease Payments	$289,385	$1,151,724	$1,441,109
Imputed Interest (rates ranging from 6.5% to 17%)	(48,114)		
Present Value of Net Minimum Future Lease Payments	$241,271		

Rental expense under operating leases totaled $87.5 million, $76.1 million and $64.2 million in 1990, 1989 and 1988, respectively.

15. JOINTLY OWNED ELECTRIC UTILITY PLANT

The Company's ownership interests in jointly owned utility plant at December 31, 1990 were as follows:

	Production Plants				Transmission and Other Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
Operator	Philadelphia Electric Company	Public Service Electric and Gas Company	Pennsylvania Electric Company	Pennsylvania Electric Company	Various Companies
Participating Interest	42.49%	42.59%	20.99%	20.72%	21% to 43%
Company's share of:			*(Thousands of Dollars)*		
Utility Plant	$629,791	$1,035,573	$79,390	$80,793	$88,126
Accumulated Depreciation	197,832	280,140	33,826	34,078	21,984
Construction Work In Progress	34,852	25,929	3,202	2,187	8

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

16. SEGMENT INFORMATION

(Thousands of Dollars)	**1990**	1989	1988
ELECTRIC OPERATIONS			
Operating Revenues	**$ 3,320,132**	$ 3,019,976	$ 2,85[illegible]
Operating Expenses, excluding depreciation	**2,243,743**	2,009,158	1,913,725
Depreciation	**337,715**	257,420	245,499
Operating Income	**$ 738,674**	$ 753,398	$ 691,091
Utility Plant Additions	**$ 430,179**	$ 961,621	$ 827,620
GAS OPERATIONS			
Operating Revenues	**$ 385,029**	$ 385,653	$ 378,397
Operating Expenses, excluding depreciation	**336,164**	310,131	308,301
Depreciation	**19,825**	19,579	18,592
Operating Income	**$ 29,040**	$ 55,943	$ 51,504
Utility Plant Additions	**$ 51,073**	$ 44,571	$ 46,117
Identifiable Assets*			
Electric	**$10,510,639**	$10,603,988	$10,012,922
Gas	**542,917**	524,925	500,205
Nonallocable Assets	**1,512,395**	1,552,204	1,349,725
TOTAL ASSETS	**$12,565,951**	$12,681,117	$11,862,852

*Includes Utility Plant less accumulated depreciation, inventories and allocated common utility property.

17. CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flow, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The following supplemental disclosures are required by SFAS No. 95:

(Thousands of Dollars)	**1990**	1989	1988
Cash paid during the year:			
Interest (net of amount capitalized)	**$597,603**	$511,467	$420[illegible]
Income taxes (net of refunds)	**$ 97,621**	$ 66,864	$ 8[illegible]
Noncash Investing and Financing:			
Capital lease obligations incurred	**$ 30,845**	$ 31,200	$ 35,800

18. PROSPECTIVE STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In December 1987, the Financial Accounting Standards Board (FASB) issued SFAS 96, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes. Current guidelines require adoption of its provisions by the first quarter of 1992. The provisions of the statement may be applied cumulatively in the year of adoption or may be applied retroactively by restating previously issued financial statements. Adoption of the statement is not expected to have a material effect upon the Company's results of operations. The Company has not made a determination as to when it will adopt SFAS No. 96 or the method of adoption.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which requires accrual accounting for such costs during the years that the employee renders the necessary service of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents. The Company is required to adopt this statement by 1993.

SFAS No. 106 will result in a significant increase in the related liability reported on the consolidated financial statements. The Company cannot determine the effect of this statement upon the results of operations for subsequent years until a determination is made by the PUC of the recoverability of this liability in the ratemaking process. The Company has not made a determination as to when it will adopt SFAS No. 106 or the method of adoption.

19. INVESTMENTS

(Thousands of Dollars)	*At December 31* **1990**	1989
Gas Exploration and Development Joint Ventures	**$ 7,217**	$ 11,099
Real Estate Developments and Other Ventures	**23,959**	23,633
Non-Utility Property	**20,786**	18,745
Trusts and Escrow Deposits for Decommissioning		
Nuclear Plants	**73,585**	53,750
Other Deposits	**279**	1,025
TOTAL	**$125,826**	$108,252

20. QUARTERLY DATA (UNAUDITED)

The data shown below include all adjustments which the Company considers necessary for a fair presentation of such amounts. 1990 quarterly data have been restated for the effect of the change in accounting for unbilled operating revenues discussed in note 4.

	Operating Revenues		Operating Income		Net Income	
Quarter Ended	**1990**	1989	**1990**	1989	**1990**	1989
			(Thousands of Dollars)			
March 31	**$ 935,948**	$890,371	**$201,573**	$232,529	**$ 31,266**	$143,310
June 30	**857,765**	777,541	**219,402**	157,123	**135,879**	108,945
September 30	**1,001,462**	895,394	**151,847**	247,451	**5,637**	205,533
December 31	**909,986**	842,323	**194,892**	172,238	**41,408**	132,619

	Earnings (Loss) Applicable to Common Stock		Average Shares Outstanding		Earnings (Loss) Per Average Share	
Quarter Ended	**1990**	1989	**1990**	1989	**1990**	1989
	(Thousands of Dollars)		*(Thousands)*		*(Dollars)*	
March 31	**$ 7,269**	$118,859	**212,171**	206,763	**$ 0.03**	$ 0.57
June 30	**112,172**	84,795	**213,942**	208,260	**0.52**	0.41
September 30	**(17,923)**	181,534	**215,023**	209,556	**(0.08)**	0.87
December 31	**22,353**	108,619	**216,236**	210,970	**0.10**	0.51

The quarterly amounts previously reported are restated for the effects of the change in accounting for unbilled operating revenues. The cumulative effect of the accounting change, $108 million or $0.51 per share, was recognized in the first quarter.

	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings (Loss) Applicable to Common Stock	Earnings (Loss) Per Average Share
	1990	**1990**	**1990**	**1990**	**1990**
March 31	**$ 953,548**	**$218,715**	**$(60,005)**	**$(84,002)**	**$(0.40)**
Adjustment	**(17,600)**	**(17,142)**	**91,271**	**91,271**	**0.43**
March 31 Restated	**935,948**	**201,573**	**31,266**	**7,269**	**0.03**
June 30	**841,865**	**203,933**	**120,410**	**96,703**	**0.45**
Adjustment	**15,900**	**15,469**	**15,469**	**15,469**	**0.07**
June 30 Restated	**857,765**	**219,402**	**135,879**	**112,172**	**0.52**
September 30	**1,011,962**	**162,076**	**15,866**	**(7,694)**	**(0.04)**
Adjustment	**(10,500)**	**(10,229)**	**(10,229)**	**(10,229)**	**(0.04)**
September 30 Restated	**1,001,462**	**151,847**	**5,637**	**(17,923)**	**(0.08)**

1990 first quarter results include a charge of approximately $296 million ($249 million, net of taxes) or $1.18 per share, resulting from the disallowances ordered by the PUC in its final decision rendered April 19, 1990 (see note 2).

1990 third quarter results include a charge of approximately $249 million ($150 million, net of taxes) or $0.70 per share, for costs associated with the Company's early retirement plan (see note 5).

1990 fourth quarter results include charges aggregating approximately $75 million ($46 million, net of taxes) or $0.21 per share, including an accrual for the incremental nuclear maintenance and refueling outage costs, higher charges for uncollectible accounts, and a write-off of costs associated with damaged nuclear fuel.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
Philadelphia Electric Company

We have audited the accompanying consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1990 and 1989, and the related consolidated statements of income, changes in common shareholders' equity and preferred stock, and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, certain legal actions were filed against the Company in 1988 by the other co-owners of the Peach Bottom Atomic Power Station seeking compensatory and punitive damages related to the shutdown of this Station. The ultimate outcome of these legal actions cannot presently be determined. Accordingly, the provision in the accompanying consolidated financial statements for any liability that may result may not be sufficient.

As discussed in Note 4 to the consolidated financial statements, the Company changed its methods of accounting for unbilled operating revenues and for incremental nuclear maintenance and refueling outage costs in 1990.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 1, 1991

Coopers & Lybrand

ANCIAL STATISTICS

SUMMARY OF EARNINGS (MILLIONS OF DOLLARS)

For the Year Ended	**1990**	1989	1988	1987	1986	1985
OPERATING REVENUES						
(for details see pages 41 and 42)	**$3,705.1**	$3,405.6	$3,228.7	$3,181.5	$3,090.9	$2,945.2
OPERATING EXPENSES						
Fuel and Energy Interchange	**691.2**	821.0	745.1	710.6	889.3	1,097.8
Labor	**590.3**	425.2	424.2	437.6	417.2	370.8
Other Materials, Supplies and Services	**878.2**	637.3	608.3	564.6	475.2	440.1
TOTAL OPERATION AND MAINTENANCE	**2,159.7**	1,883.5	1,777.6	1,712.8	1,781.7	1,908.7
Depreciation	**357.5**	277.0	264.1	251.9	217.7	183.0
Taxes	**420.2**	435.8	444.4	499.7	517.0	440.9
TOTAL OPERATING EXPENSES	**2,937.4**	2,596.3	2,486.1	2,464.4	2,516.4	2,532.6
OPERATING INCOME	**767.7**	809.3	742.6	717.1	574.5	412.6
OTHER INCOME AND DEDUCTIONS						
Allowance for Other Funds Used During Construction	**27.2**	121.9	98.9	77.2	76.8	176.3
Capitalized Limerick Costs	**80.3**	82.0	73.1	66.6	172.9	—
Adjustment to Limerick Plant Costs	**(263.9)**	—	—	—	(368.9)	—
Credit (Charge) Related to Limerick Unit No. 1 Phase-In Plan	**15.3**	24.0	26.2	18.4	(91.8)	—
Income Tax Credits, Net	**86.9**	56.7	43.5	35.3	279.7	133.4
Other, Net	**(25.0)**	4.0	7.9	18.3	2.4	(3.5)
TOTAL OTHER INCOME AND DEDUCTIONS	**(79.2)**	288.6	249.6	215.8	71.1	306.2
ME BEFORE INTEREST CHARGES	**688.5**	1,097.9	992.2	932.9	645.6	718.8
INTEREST CHARGES						
Long-Term Debt	**579.8**	569.7	524.1	467.3	458.9	435.4
Short-Term Debt	**31.0**	86.4	24.2	17.2	12.5	17.7
Allowance for Borrowed Funds Used During Construction	**(28.1)**	(148.7)	(122.1)	(92.2)	(101.6)	(257.2)
NET INTEREST CHARGES	**582.7**	507.4	426.2	392.3	369.8	195.9
Income From Continuing Operations	**105.8**	590.5	566.0	540.6	275.8	522.9
Income From Discontinued Operations	**—**	—	—	1.8	1.9	2.4
Loss on Disposal of Discontinued Operations	**—**	—	—	—	(1.2)	—
Income Before Cumulative Effect of Accounting Change	**105.8**	590.5	566.0	542.4	276.5	525.3
Cumulative Effect of Accounting Change	**108.4**	—	—	—	—	—
NET INCOME	**214.2**	590.5	566.0	542.4	276.5	525.3
PREFERRED STOCK DIVIDENDS	**90.3**	96.6	97.2	94.2	90.9	90.6
EARNINGS APPLICABLE TO COMMON STOCK	**123.9**	493.9	468.8	448.2	185.6	434.7
DIVIDENDS ON COMMON STOCK	**310.3**	459.6	444.1	423.3	403.5	373.5
EARNINGS (DEFICIT) RETAINED	**$ (186.4)**	$ 34.3	$ 24.7	$ 24.9	$ (217.9)	$ 61.2
EARNINGS PER AVERAGE COMMON SHARE FROM CONTINUING OPERATIONS (DOLLARS)	**$ 0.07**	$ 2.36	$ 2.33	$ 2.33	$ 1.01	$ 2.55
EARNINGS PER AVERAGE COMMON SHARE (DOLLARS)	**$ 0.58**	$ 2.36	$ 2.33	$ 2.33	$ 1.01	$ 2.56
DIVIDENDS PER COMMON SHARE (DOLLARS)	**$ 1.45**	$ 2.20	$ 2.20	$ 2.20	$ 2.20	$ 2.20
COMMON STOCK EQUITY (PER SHARE)	**$ 16.71**	$ 17.67	$ 17.39	$ 17.20	$ 16.95	$ 17.97
AGE SHARES OF COMMON STOCK UTSTANDING (MILLIONS)	**214.4**	208.9	201.5	192.5	183.1	169.8

SUMMARY OF FINANCIAL CONDITION (MILLIONS OF DOLLARS)

December 31	**1990**	1989	1988	1987	1986	1985
ASSETS						
UTILITY PLANT, AT ORIGINAL COST	**$13,542.8**	$13,358.0	$12,444.3	$11,641.2	$10,847.8	$10,572.2
Less: Accumulated Depreciation	**2,951.4**	2,637.2	2,395.8	2,169.4	2,005.7	1,824.4
Leased Property, Net	**241.3**	273.5	287.5	287.2	281.3	338.1
Net Utility Plant	**10,832.7**	10,994.3	10,336.0	9,759.0	9,123.4	9,085.9
CURRENT ASSETS						
Cash and Temporary Cash Investments	**66.1**	64.4	43.6	43.0	90.7	188.8
Accounts Receivable, Net	**337.7**	255.8	175.7	385.8	375.6	370.9
Inventories	**194.9**	189.8	170.3	150.3	129.7	123.7
Unrecovered Phase-In Plan Revenue, Net	**119.2**	118.0	54.1	—	—	—
Other	**76.8**	86.1	78.9	73.8	78.6	71.8
DEFERRED DEBITS AND OTHER ASSETS						
Unrecovered Phase-In Plan Revenue, Net	**119.8**	163.0	251.0	217.6	20.6	—
Deferred Limerick Costs	**498.5**	475.1	375.9	286.0	202.7	—
Investments	**125.8**	108.2	97.8	100.9	89.7	87.7
Loss on Reacquired Debt	**129.3**	137.3	118.3	119.1	76.8	48.6
Other	**65.1**	89.2	110.9	68.0	70.7	86.2
TOTAL	**$12,565.9**	$12,681.2	$11,812.5	$11,203.5	$10,258.5	$10,063.6
CAPITALIZATION AND LIABILITIES						
Common Stock	**$ 3,380.2**	$ 3,295.4	$ 3,177.6	$ 2,995.2	$ 2,833.0	$ 2,6[illegible]
Other Paid-In Capital	**1.2**	5.3	5.1	4.6	7.8	[illegible]
Retained Earnings	**243.1**	444.1	409.9	387.1	363.3	583.7
Common Shareholders' Equity	**3,624.5**	3,744.8	3,592.6	3,386.9	3,204.1	3,193.0
Preferred Stock:						
Without Mandatory Redemption	**422.5**	622.4	622.4	572.5	572.5	572.5
With Mandatory Redemption	**330.9**	351.1	368.1	389.1	374.9	318.3
Long-Term Debt	**5,830.8**	5,762.7	5,219.5	4,870.7	4,286.8	4,309.2
TOTAL CAPITALIZATION	**10,208.7**	10,481.0	9,802.6	9,219.2	8,438.3	8,393.0
CURRENT LIABILITIES						
Notes Payable, Bank	**68.5**	112.0	—	102.0	—	1.0
Long-Term Debt Due Within One Year	**22.4**	17.1	70.2	80.9	108.6	80.8
Capital Lease Obligations Due Within One Year	**60.9**	73.8	72.1	60.6	69.4	76.3
Accounts and Dividends Payable	**280.0**	273.4	220.4	206.0	222.1	185.1
Taxes Accrued	**155.0**	141.1	140.0	114.7	86.1	58.5
Deferred Energy Costs	**3.4**	(39.2)	(50.4)	(6.2)	88.2	(101.7)
Deferred Income Taxes	**49.7**	59.0	20.0	2.7	(44.8)	51.8
Interest Accrued	**108.6**	124.3	129.4	121.7	90.7	93.0
Other	**85.0**	88.1	80.7	72.1	80.0	72.0
DEFERRED CREDITS AND OTHER LIABILITIES						
Capital Lease Obligations	**180.4**	199.8	215.5	226.6	212.0	261.8
Deferred Income Taxes	**753.2**	809.5	753.3	682.9	560.5	502.6
Unamortized Investment Tax Credits	**247.7**	242.3	273.0	282.3	299.7	302.4
Pension Obligation for Early Retirees	**180.3**	—	—	—	—	—
Other	**162.1**	99.0	85.7	38.0	47.7	87.0
TOTAL	**$12,565.9**	$12,681.2	$11,812.5	$11,203.5	$10,258.5	$10,063.6

Certain prior year amounts have been reclassified for comparative purposes.

Operating Statistics

Electric Operations

	1990	1989	1988	1987	1986	1985
Output (Millions of Kilowatthours)						
Fossil	**7,913**	10,470	10,225	9,835	7,864	9,455
Nuclear	**23,715**	12,890	12,328	11,853	17,125	8,359
Hydraulic	**2,266**	1,743	1,307	1,590	1,848	1,484
Pumped Storage Output	**1,437**	1,354	1,515	1,251	1,176	1,235
Pumped Storage Input	**(2,059)**	(1,937)	(2,163)	(1,787)	(1,661)	(1,754)
Purchase and Net Interchange	**2,325**	9,165	11,367	9,806	4,258	10,252
Internal Combustion	**152**	348	285	232	269	178
Other	**891**	1,063	—	—	382	1,254
Total Electric Output	**36,640**	35,096	34,864	32,780	31,261	30,463
Sales (Millions of Kilowatthours)						
Residential	**9,815**	9,974	10,058	9,441	8,900	8,440
Small Commercial and Industrial	**5,066**	4,921	4,666	4,341	4,022	3,731
Large Commercial and Industrial	**16,554**	16,749	16,516	15,789	15,068	14,920
All Other	**1,010**	1,031	999	974	993	1,044
Service Territory	**32,445**	32,675	32,239	30,545	28,983	28,135
Sales to Other Utilities	**1,865**	—	—	—	—	—
Total Electric Sales	**34,310**	32,675	32,239	30,545	28,983	28,135
Number of Customers, December 31						
Residential	**1,320,126**	1,309,717	1,296,784	1,280,297	1,263,465	1,245,481
Small Commercial and Industrial	**140,305**	138,244	135,274	131,279	127,797	124,719
Large Commercial and Industrial	**4,344**	4,449	4,520	4,589	4,668	4,881
All Other	**817**	775	779	771	763	773
Total Electric Customers	**1,465,592**	1,453,185	1,437,357	1,416,936	1,396,693	1,375,854
Operating Revenues (Millions of Dollars)						
Residential	**$1,229.8**	$1,157.0	$1,127.8	$1,092.6	$1,023.6	$ 923.9
Small Commercial and Industrial	**595.2**	537.1	489.4	471.7	437.0	388.7
Large Commercial and Industrial	**1,247.1**	1,182.0	1,089.3	1,103.3	1,103.3	1,061.8
All Other	**153.5**	143.9	143.8	142.1	135.5	141.8
Service Territory	**3,225.6**	3,020.0	2,850.3	2,809.7	2,699.4	2,516.2
Sales to Other Utilities	**94.5**	—	—	—	—	—
Total Electric Revenues	**$3,320.1**	$3,020.0	$2,850.3	$2,809.7	$2,699.4	$2,516.2
Operating Expenses (Millions of Dollars)						
Operating expenses excluding depreciation	**$2,243.7**	$2,009.2	$1,913.7	$1,895.1	$1,961.4	$1,974.2
Depreciation	**337.7**	257.4	245.5	234.9	201.8	168.2
Total Operating Expenses	**$2,581.4**	$2,266.6	$2,159.2	$2,130.0	$2,163.2	$2,142.4
Electric Operating Income (Millions of Dollars)	**$ 738.7**	$ 753.4	$ 691.1	$ 679.7	$ 536.2	$ 373.8
Average Use per Residential Customer (kilowatthours)						
Without Electric Heating	**6,428**	6,488	6,667	6,431	6,177	6,034
With Electric Heating	**16,430**	17,250	17,738	16,824	16,661	15,923
Total	**7,553**	7,655	7,807	7,427	7,097	6,820
Electric Peak Load, Demand (thousands of kilowatts)	**6,755**	6,467	6,826	6,547	6,134	6,034
Net Electric Generating Capacity— Year-End Summer rating (thousands of kilowatts)	**8,130**	7,759	7,762	7,762	7,870	7,599
Cost of Fuel per Million Btu	**$1.08**	$1.37	$1.19	$1.35	$1.18	$1.72
Btu per Net Kilowatthour Generated	**10,844**	10,894	10,881	10,879	10,844	10,843

OPERATING STATISTICS—*Continued*

GAS OPERATIONS

	1990	1989	1988	1987	1986	1985
SALES (MILLIONS OF CUBIC FEET)						
Residential	**1,778**	1,951	1,933	1,854	1,856	1,810
House Heating	**25,303**	28,301	28,112	26,010	25,731	23,227
Commercial and Industrial	**16,791**	30,038	39,073	38,170	33,834	36,254
All Other	**8,004**	2,344	2,228	1,541	578	1,209
TOTAL GAS SALES	**51,876**	62,634	71,346	67,575	61,999	62,500
Gas Transported for Customers	**24,413**	18,033	9,272	7,374	3,907	10,262
TOTAL GAS SALES & TRANSPORTED	**76,289**	80,667	80,618	74,949	65,906	72,762
NUMBER OF CUSTOMERS, DECEMBER 31						
Residential	**63,267**	65,544	66,599	67,688	68,590	69,632
House Heating	**254,564**	246,273	239,022	231,618	225,010	217,840
Commercial and Industrial	**29,456**	28,369	27,119	26,021	24,884	24,234
TOTAL GAS CUSTOMERS	**347,287**	340,186	332,740	325,327	318,484	311,706
OPERATING REVENUES (MILLIONS OF DOLLARS)						
Residential	**$ 18.1**	$ 18.0	$ 17.0	$ 16.7	$ 18.0	$ 18.7
House Heating	**200.8**	195.8	180.6	175.7	189.8	185.4
Commercial and Industrial	**119.4**	152.5	165.1	167.5	177.7	214.1
All Other	**30.9**	7.3	6.6	4.4	2.0	5.2
Subtotal	**$369.2**	$373.6	$369.3	$364.3	$387.5	$423.4
Other Revenues (including Transported for Customers)	**15.8**	12.1	9.1	7.5	4.0	5.5
TOTAL GAS REVENUES	**$385.0**	$385.7	$378.4	$371.8	$391.5	$4[illegible]
OPERATING EXPENSES (MILLIONS OF DOLLARS)						
Operating expenses excluding depreciation	**$336.2**	$310.2	$308.3	$317.4	$337.3	$37[illegible].4
Depreciation	**19.8**	19.6	18.6	17.0	15.9	14.8
TOTAL OPERATING EXPENSES	**$356.0**	$329.8	$326.9	$334.4	$353.2	$390.2
GAS OPERATING INCOME (MILLIONS OF DOLLARS)	**$ 29.0**	$ 55.9	$ 51.5	$ 37.4	$ 38.3	$ 38.7

SECURITIES STATISTICS

Ratings on Philadelphia Electric Company's Securities

	Mortgage Bonds		Debentures		Preferred Stock	
Agency	Rating	Date Established	Rating	Date Established	Rating	Date Established
Duff and Phelps, Inc.	BBB	3/80	BBB–	3/80	BB+	2/83
Fitch Investors Service	BBB	9/82	BBB–	9/82	BBB–	4/90
Moody's Investors Service	Baa3	1/83	Ba1	1/83	ba1	1/83
Standard & Poor's Corporation	BBB	4/90	BBB–	4/90	BBB–	4/90

NYSE— COMPOSITE COMMON STOCK PRICES, EARNINGS AND DIVIDENDS BY QUARTERS (PER SHARE)

	1990				1989			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	**$18⅛**	**$16⅝**	**$18**	**$23½**	$24	$24½	$22⅞	$21⅛
Low Price	**$14¾**	**$14½**	**$15**	**$17⅜**	$21⅛	$21¼	$19¾	$19⅛
Earnings*	**10¢**	**(8¢)**	**52¢**	**3¢**	51¢	87¢	41¢	57¢
Dividends	**30¢**	**30¢**	**30¢**	**55¢**	55¢	55¢	55¢	55¢

*First through third quarter earnings for 1990 were restated for the effects of the change in accounting for unbilled operating reve[illegible]

OFFICERS

JOSEPH F. PAQUETTE, JR. (56)
Chairman and Chief Executive Officer

CORBIN A. MCNEILL, JR. (51)
President and Chief Operating Officer

NICHOLAS DEBENEDICTIS (45)
Senior Vice President, Corporate and Public Affairs

JAMES W. DURHAM (53)
Senior Vice President and General Counsel

RICHARD G. GILMORE (63)
Senior Vice President, Finance and Chief Financial Officer

RAYMOND F. HOLMAN (62)
Senior Vice President, Planning and Performance

DICKINSON M. SMITH (57)
Senior Vice President, Nuclear

DAVID R. HELWIG (39)
Vice President, Nuclear Engineering and Services

THOMAS P. HILL, JR. (42)
Vice President and Controller

KENNETH G. LAWRENCE (43)
Vice President, Gas Operations

GRAHAM M. LEITCH (56)
Vice President, Limerick Generating Station

JOHN M. MADARA, JR. (47)
Vice President, Engineering and Production

ALBERT G. MIKALAUSKAS (54)
Vice President, Customer and Marketing Services

DONALD B. MILLER, JR. (49)
Vice President, Peach Bottom Atomic Power Station

MORTON W. RIMERMAN (61)
Vice President, Finance and Treasurer

ALBERT J. SOLECKI (50)
Vice President, Information Systems and General Services

ALVIN J. WEIGAND (52)
Vice President, Electric Transmission and Distribution

LUCY S. BINDER (53)
Secretary

J. BARRY MITCHELL (43)
Assistant Treasurer

JON A. KATHERINE (55)
Assistant Treasurer

J. ROBERT CAUSTON (53)
Assistant Treasurer

JAMES F. HOHENSTEIN (47)
Assistant Treasurer

WILLIAM M. LENNOX, JR. (53)
Assistant Treasurer

M. DOROTHY LYONS (49)
Assistant Secretary

MANAGEMENT CHANGES:

Corbin A. McNeill, Jr. was elected President and Chief Operating Officer, effective April 16, 1990.

Raymond F. Holman was elected Senior Vice President, Planning and Performance, effective April 16, 1990.

Dickinson M. Smith was elected Senior Vice President, Nuclear, effective April 16, 1990.

David R. Helwig was elected Vice President, Nuclear Engineering and Services, effective April 16, 1990.

Donald B. Miller, Jr. was elected Vice President, Peach Bottom Atomic Power Station, effective May 1, 1990.

S. Joseph Kowalski retired as Vice President, Nuclear Engineering, on July 31, 1990.

Donald P. Scott retired as Treasurer on October 31, 1990.

Morton W. Rimerman was elected Vice President, Finance and Treasurer, effective November 26, 1990.

J. Barry Mitchell was elected Assistant Treasurer, effective November 26, 1990.

John S. Kemper retired as Vice President, Engineering and Production on December 30, 1990.

Raymond C. Williams retired as Vice President, Rates on December 30, 1990.

Thomas P. Hill, Jr. was elected Vice President and Controller, effective January 1, 1991.

John M. Madara, Jr. was elected Vice President, Engineering and Production, effective January 1, 1991.

James F. Hohenstein was elected Assistant Treasurer, effective January 28, 1991.

BOARD OF DIRECTORS

SUSAN W. CATHERWOOD (47)
Chairman, Board of Overseers, The University Museum, University of Pennsylvania

WILLIAM T. COLEMAN, JR., ESQUIRE (70)
Senior Partner of the law firm O'Melveny & Myers

M. WALTER D'ALESSIO* (57)
President and Chief Executive Officer, Latimer & Buck, Inc. (Mortgage banking and real estate development)

RICHARD G. GILMORE (63)
Senior Vice President, Finance, and Chief Financial Officer of the Company

RICHARD H. GLANTON, ESQUIRE (44)
Partner of the law firm Reed Smith Shaw & McClay

JAMES A. HAGEN* (58)
Chairman, President and Chief Executive Officer, Consolidated Rail Corporation

NELSON G. HARRIS (64)
President and Chief Executive Officer, Tasty Baking Company

ROBERT D. HARRISON (67)
Management and marketing consultant

JOSEPH C. LADD* (64)
Chairman, The Fidelity Mutual Life Insurance Company

EDITHE J. LEVIT, M.D.* (64)
President Emeritus and Life Member of the Board, National Board of Medical Examiners

ADMIRAL KINNAIRD R. MCKEE* (61)
Director Emeritus, U.S. Navy Nuclear Propulsion

JOSEPH J. MCLAUGHLIN (62)
President and Chief Executive Officer, Beneficial Mutual Savings Bank

CORBIN A. MCNEILL, JR. (51)
President and Chief Operating Officer of the Company

JOHN M. PALMS, PHD. (55)
President, Georgia State University

JOSEPH F. PAQUETTE, JR.* (56)
Chairman and Chief Executive Officer of the Company

RONALD RUBIN (59)
General Partner, Richard I. Rubin & Company (Real estate development and management)

DIRECTOR CHANGES:

William S. Gaither resigned from the Board, effective March 31, 1990.

Ralph J. Roberts' term expired on March 31, 1990.

Corbin A. McNeill, Jr. was elected a member of the Board, effective April 11, 1990.

John M. Palms was elected a member of the Board, effective June 1, 1990.

James A. Hagen was elected a member of the Board, effective August 1, 1990.

Richard H. Glanton was elected a member of the Board, effective January 28, 1991.

**Member of Executive Committee*

Shareholder Information

Stock Exchange Listings

Most Company securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange. Philadelphia Electric Power Company Debentures are listed on the Philadelphia Stock Exchange.

Dividends

The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December. The Company estimates that the $1.45 per share dividend paid to common shareholders in 1990 is fully taxable as dividend income for Federal income tax purposes.

Shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan (Plan). The Company pays all brokerage and service fees for stock purchases under the Plan. Customers of the Company who are not shareholders may enroll in the Plan by making a one-time purchase of common stock directly from the Company. All shareholders have the opportunity to invest additional funds in common stock of the Company, whether or not they have their dividends reinvested—also with all purchasing fees borne by the Company.

In 1990, over 41% of the Company's common shareholders were participants in the Plan and invested more than $84 million through the Plan, including cash payments. Information concerning this Plan may be obtained from: First Chicago Trust Company of New York, P.O. Box 3506, Church Street Station, New York, NY 10008-3506.

Comments Welcomed

The Company is always pleased to answer questions and provide information. Please address your comments to Mrs. L.S. Binder, Secretary, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Inquiries relating to shareholder account records, stock transfer and change of address should be directed to First Chicago Trust Company of New York, P.O. Box 3981, Church Street Station, New York, NY 10008-3981

Toll-Free Telephone Line

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

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held on April 10, 1991. The record date for voting at the shareholders' meeting is February 20, 1991. Notice of the meeting, proxy statement, and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

Form 10-K

Form 10-K, the annual report filed with the Securities and Exchange Commission, is available, without charge, to shareholders upon written request to Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Financial Division, S21-1.

Shareholders

The Company has 267,694 shareholders of record of common stock.

Transfer Agents And Registrars

PHILADELPHIA ELECTRIC COMPANY—
Preferred and Common Stocks
Registrar &
Transfer Agent: First Chicago Trust Company of New York
30 W. Broadway, NY, NY 10015

PHILADELPHIA ELECTRIC COMPANY—
First and Refunding Mortgage Bonds
Trustee: Fidelity Bank, National Association
Corporate Trust Operations
Broad & Walnut Sts., Phila., PA 19109
New York Agent: Morgan Guaranty Trust Co. of NY
30 W. Broadway, NY, NY 10015
PHILADELPHIA ELECTRIC COMPANY—Debentures
PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—
Debentures
Trustee: CoreStates Bank, N.A.
Corporate Trust Department
P.O. Box 7907
Philadelphia, PA 19106
New York Agent: The Bank of New York
101 Barclay Street, NY, NY 10286

General Office

2301 Market Street, P.O. Box 8699, Phila., PA 19101
(215) 841-4000.

Philadelphia Electric Company
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