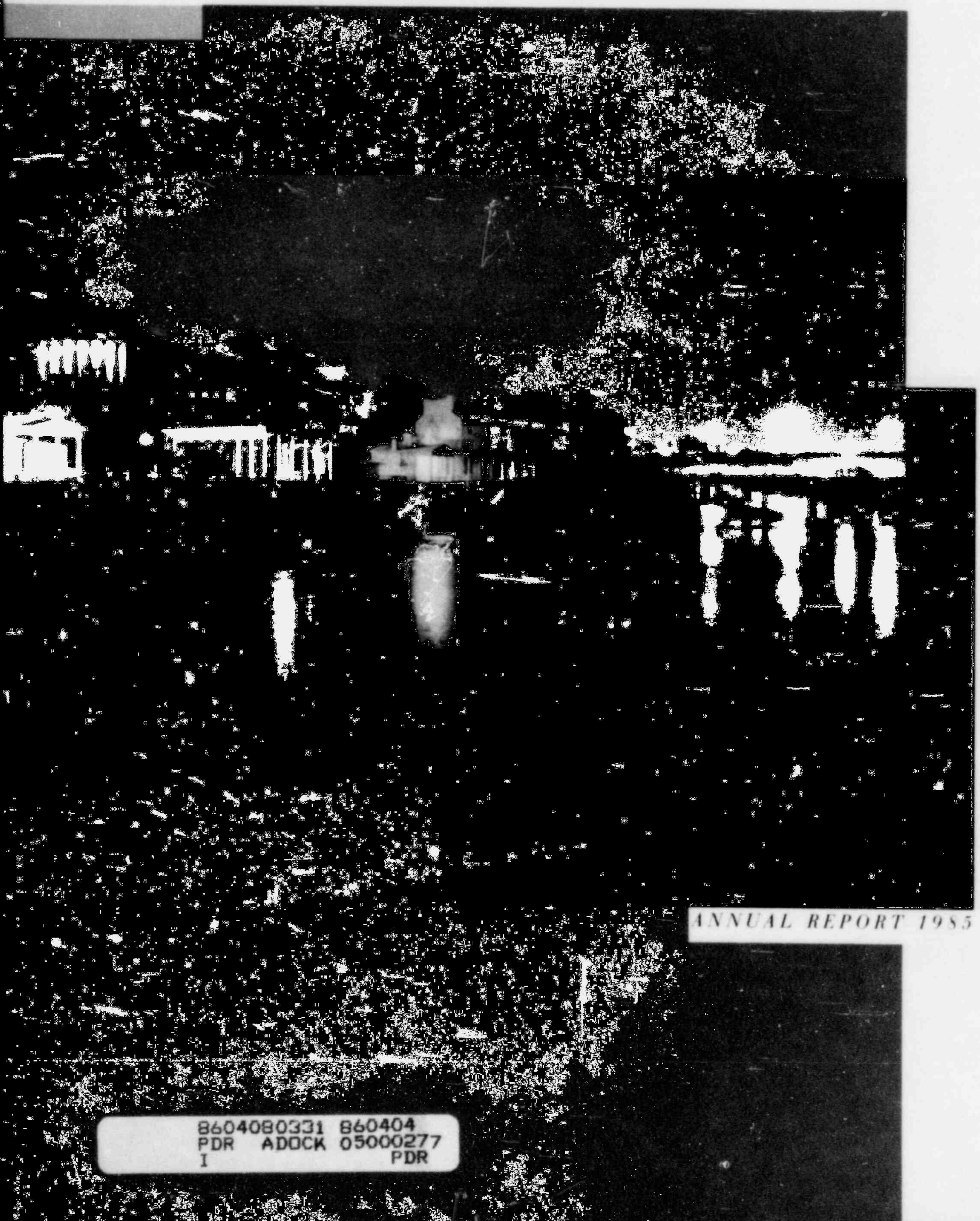
PHILADELPHIA ELECTRIC COMPANY



ANNUAL REPORT 1985

About the Cover—The cultural gateway to center city along the Schuylkill River features the Philadelphia Museum of Art (left) alongside the Fairmount Waterworks (center) with the Company's headquarters building in the distance (right).

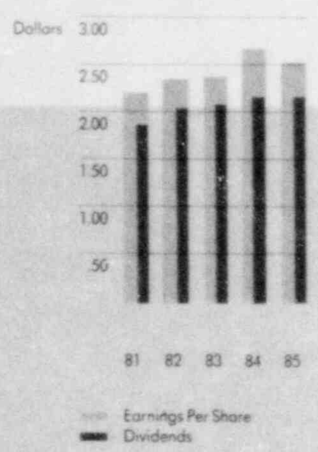
About the Company—Philadelphia Electric Company is an operating utility which provides electric, gas and steam service to the public in southeastern Pennsylvania and to certain portions of northeastern Maryland through a subsidiary. The total area served by the Company and subsidiaries covers 2,475 square miles. Electric service is supplied in an area of 2,340 square miles with a population of about 3,700,000, including 1,700,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 63 percent of retail 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 in a 1,475-square mile area of southeastern Pennsylvania adjacent to Philadelphia with a population of 1,900,000. Steam service is supplied in the central and west Philadelphia areas.

Contents

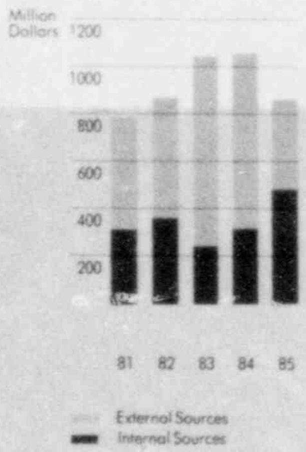
Philadelphia
Electric
Company
Annual Report
1985

Financial Highlights	1985	1984	% Change
Operating Revenue	**$3,013,704,000**	$2,981,017,000	1%
Operating Expenses	**$2,598,751,000**	$2,526,758,000	3%
Taxes Charged to Operations	**$443,347,000**	$453,612,000	(2%)
Operating Income	**$414,953,000**	$454,259,000	(9%)
Earnings Applicable to Common Stock	**$434,724,000**	$409,707,000	6%
Earnings per Average Common Share	**$2.56**	$2.70	(5%)
Cash Dividends Paid per Common Share	**$2.20**	$2.20	—
Average Shares of Common Stock Outstanding	**169,784,471**	151,803,698	12%
Construction Expenditures	**$864,700,000**	$1,063,630,000	(19%)
Total Assets	**$10,165,314,000**	$9,555,729,000	6%

EARNINGS AND DIVIDENDS PER SHARE



CONSTRUCTION EXPENDITURES



pursued vigorously during 1986 and until completion. These items comprise our top priorities for 1986.

The Company's accomplishments in 1985 are the result of the continuing effort of a dedicated and talented group of employees. Their commitment to efficient operation, high-quality customer service and innovative technology serves our Company well. They are also actively involved in our local communities, leading and participating in a wide variety of activities that contribute to the quality of life within the Company's service area. Examples of our employees' activities are highlighted in this report.

The counties that we serve in southeastern Pennsylvania and northeastern Maryland are rich in history, culture, scenic beauty, recreational activities and economic opportunity. We have attempted to capture some of these elements in the photography of this year's report.

As we face the future, we recognize the support of our investors that has made this year's significant achievements possible. Thank you for your continuing support.

J. L. Everett

James L. Everett
Chairman of the Board
and Chief Executive Officer

J H Austin Jr

John H. Austin, Jr.
President
and Chief Operating Officer

John H. Austin, Jr. James L. Everett

To Our Shareholders

1985 was a year of solid accomplishments for the Company.

□ *Limerick Unit No. 1* received its full-power operating license on August 8. After the unit was exhaustively tested while gradually being raised to full capacity, it was placed in commercial operation on February 1, 1986.

□ *Limerick Unit No. 2* received Pennsylvania Public Utility Commission (PUC) permission in December to be completed under a cost containment and operational incentive program which includes a construction cost cap, operating and maintenance cost controls and performance incentives and penalties. Full construction resumed in February 1986, with a targeted completion date of late 1990.

□ *Earnings per share* were $2.56, a decline of 14 cents from last year. A PUC disallowance in October of approximately $73 million of prior years' deferred costs reduced earnings per share by 20 cents. The Company has appealed this disallowance to the Commonwealth Court of Pennsylvania.

□ *Electric sales* to retail customers remained essentially flat compared to last year as milder weather offset growth in customers. Gas sold and transported declined slightly due to warmer weather during the heating season. Steam sales were also down.

□ A 28.2% *electric rate increase request*, the largest in the Company's history, was filed in September to bring Limerick Unit No. 1 into rate base. To moderate the impact of the increase on customers, the Company proposed to phase in the increase over a three-year period in three equal steps of 9.4% each.

□ *Gas tariffs* were reduced by approximately $28 million per year in several reductions that took effect during 1985. These reductions match comparable reductions in suppliers' prices to the Company and did not affect Company earnings.

□ *The Point Pleasant Water Project*, which is designed to provide permanent supplemental cooling water for the operation of Limerick, was ordered completed by the Court of Common Pleas of Bucks County in February, which was affirmed by the Commonwealth Court in October. Bucks County and the Neshaminy Water Resources Authority have petitioned the Supreme Court of Pennsylvania for allowance of an appeal.

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P H I L A D E L P H I A   C O U N T Y

The Schuylkill River traverses our service territory from above Pottstown along the Chester County and Montgomery County borders and through Philadelphia and provides many recreational activities for area residents. The Temple University varsity crew completes a workout.

Earnings

Common stock earnings per share in 1985 were $2.56, a 5% decrease from the $2.70 earned in 1984. Total common stock earnings amounted to $435 million, up $25 million or 6% from last year, while the average number of shares outstanding increased 12% to 170 million shares.

The decline in per share earnings is attributable to a disallowance by the Pennsylvania Public Utility Commission (PUC) of approximately $73 million of fuel and other costs incurred in 1983 and 1984 which reduced earnings per share by 20 cents. The Company has appealed this decision to the Commonwealth Court of Pennsylvania.

Financial Statements and Notes begin on page 23.

Sales and Customers

Total electric sales amounted to 28.1 billion kilowatthours, a decrease of 4% from the 29.4 billion kilowatthours sold in 1984 which included the sale of the Company's share of the output of Salem Unit No. 2 to Jersey Central Power & Light Company. The Salem Unit No. 2 contract with Jersey Central expired at year-end 1984. Retail sales of electricity were essentially flat as compared to 1984 sales excluding the sale of Salem Unit No. 2 output.

Natural gas sold and transported decreased 1% to 73 billion cubic feet due to warmer weather during the heating season although increases in gas transported for seven large industrial customers partially offset the unfavorable weather. Steam sales were also adversely affected by warmer weather and decreased 11% to 4.2 billion pounds.

The Greenfield Elementary School at 22nd and Chestnut Streets is more than PE's center city neighbor. PE adopted Greenfield under the Philadelphia School District's Adopt-A-School Program through which the Company provides facilities and services to help the school.

The number of electric customers grew 1% in 1985, totalling nearly 1.4 million at year-end. The number of gas customers also grew, increasing 2% to 311,700.

Additional information on sales, revenue and customers can be found on pages 42 and 43.

Financing

The Company raised over $1.0 billion in new capital during 1985 to provide funds for construction, debt refunding and other needs. As a result of lower interest rates, the Company sold $250 million of 11-3/4% mortgage bonds due 2014 and $150 million of 10-7/8% mortgage bonds due 1995 in November for the purpose of repurchasing, through a tender offer, certain of the Company's outstanding bonds consisting of the 18-3/4% Series due 2009, the 18% Series due 2012 and the 17-5/8% Series due 2011. As a result of the offer, $217 million of bonds were tendered enabling the Company to reduce its annual interest payments by approximately $9.6 million per year. Funds not needed for the tender offer will be used for construction and other corporate purposes.

1985 Major Financings

Month		Millions of Dollars
Apr.	Common Stock—4,000,000 shares @ $15.48	$ 61.9
May	Pollution Control Bonds—10½% due 2015	245.0
Oct.	Pollution Control Bonds—10½% due 2014	41.0
Nov.	Mortgage Bonds—	
	10⅞% due 1995	150.0
	11¾% due 2014	250.0
Jan.-Dec.	Common Stock Purchase Plans:	
	Dividend Reinvestment, Employee, PAYSOP—7,990,000 shares Average Price of $15.77	126.0
	Common Stock continuous offerings: 3,387,100 shares Average Price of $15.65	53.0
	Sub-Total	$ 926.9
	Limerick Credit Agreement—Net additional borrowing (Outstanding 12/31/85—$550 million)	150.0
	Total	$1,076.9

Construction Expenditures

Investment in new plant and equipment amounted to $865 million in 1985 with approximately 70% spent on Limerick and related transmission facilities. Outlays for 1986 are expected to amount to approximately $771 million including $304 million for Limerick Unit No. 2.

Construction cranes dominate the downtown Philadelphia skyline. Work on IBM's Commerce Square continues as James C. O'Brien of Area Development and P. John Polizzi of Industrial and Commercial Services look on. The $300 million twin-tower office complex project is located at 21st and Market Streets.

E. Martin Shane of Area Development and Francis L. Corey of Industrial and Commercial Services confer near a model of One Liberty Place, which is the first phase of a $600 million Rouse & Associates development. The project will include two office towers, a 250-room luxury hotel, two levels of retail space and a parking garage. Scheduled to be completed in the fall of 1987, One Liberty Place will rise 60 stories above ground level, higher than the tower and statue of William Penn atop City Hall (40 stories).

Rates and Regulation

Effective January 25, 1985, the PUC adopted an Order granting the Company a net increase in annual electric revenues of $49 million, comprised of a base rate increase of $150 million, reflecting the inclusion of Salem Unit No. 2, less $101 million in fuel cost savings. The Company agreed to guarantee that Salem Unit No. 2 would produce $116 million of fuel savings for the period from February 1, 1985 to March 31, 1986.

In September, the Company filed a $671 million electric rate increase to begin earning a cash return on the $3.8 billion investment in Limerick Unit No. 1 and 100% of common plant and to recover the costs of operating the unit. The request reflects an estimated $207 million in annual fuel cost savings resulting from the operation of Unit No. 1. The Company proposes to phase in the 28.2% increase over three years in three equal steps of 9.4% each and thereby lessen the impact of the increase on customers. In addition, the Company proposes that revenues deferred by the phase-in plan be recovered after the third or final step is effective, but without interest. The PUC suspended the rate increase until June 27, 1986, and ordered full public hearings.

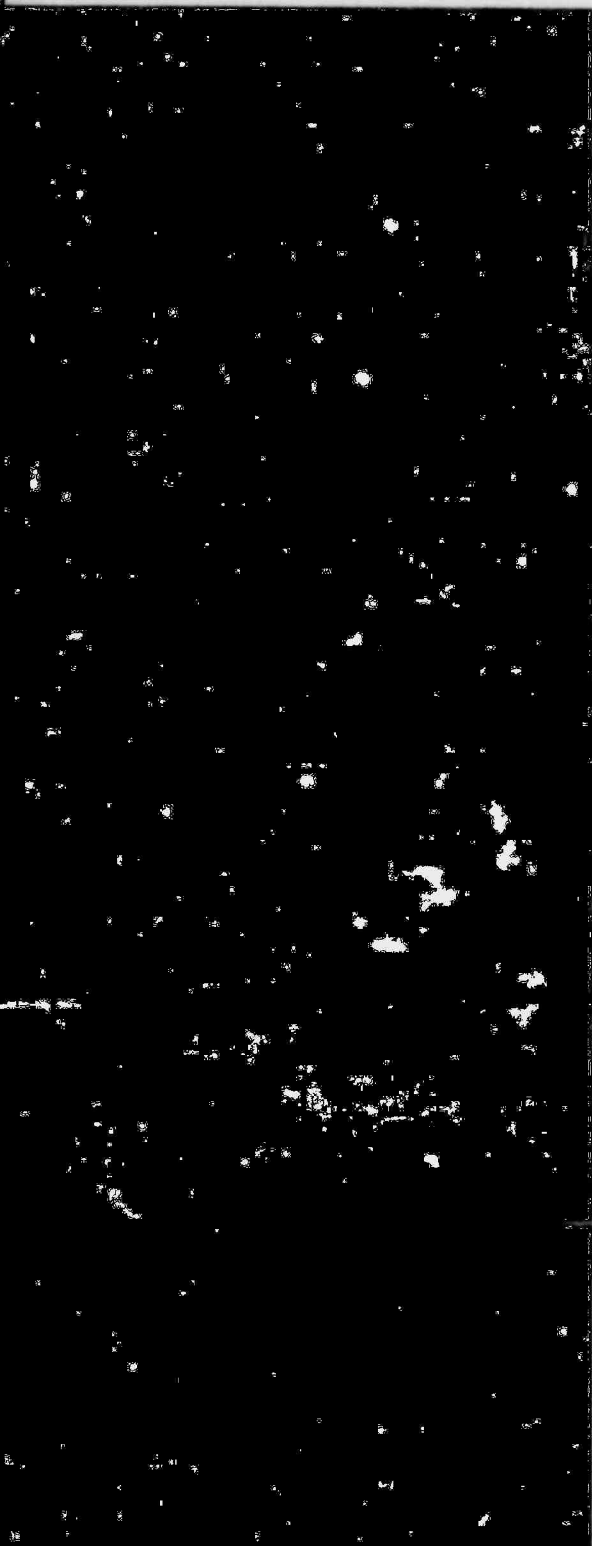
Paul Rudolph, Jr. of Gas Operations coaches boys and girls in soccer, basketball, and baseball for the Swarthmore Recreation Association.

In December, the PUC issued an Order in the Limerick Unit No. 2 Show Cause proceeding that approved the completion of construction of Unit No. 2 provided the Company agreed to a cost containment and operational incentive program. This program includes a $3.2 billion cap on the total cost of the unit for rate-making purposes and two plant performance requirements with incentives and penalties. After careful consideration, the Company's Board of Directors unanimously accepted the terms of the PUC Order and full construction resumed on Unit No. 2 in February 1986. Unit No. 2 is needed by the early 1990s to provide additional capacity for new load growth and to replace old oil-fired generation. The Company has scheduled the unit to be completed in late 1990 at a total cost of $3.2 billion, including the $901 million spent through December 1985. The Company believes that it can complete the unit on schedule with the highest degree of quality and within the PUC's cost containment cap.

In October, the PUC issued an Order denying the Company recovery of approximately $73 million of the $101 million of deferred replacement fuel costs associated primarily with Salem Unit No. 1 outages in 1983 and 1984 and costs incurred during operation of the Company's magnesium oxide (MgO) regeneration equipment in 1983. (The MgO regeneration equipment is part of the Company's scrubber system for removing sulfur

D E L A W A R E   C O U N T Y

The Brandywine Battlefield Park in Delaware County is one of many historic sites located in the county. Both Washington's and Lafayette's headquarters are located in this scenic park which dates back to the mid-17th century. This cemetery, which is still in use, has gravestones dating back to the Revolutionary War era.



dioxide from the stacks of its coal-fired plants located in its service area.) The disallowed costs were written off against third quarter income and reduced common stock earnings by $34.7 million, or 20 cents per share. The Company has filed a petition for review of this decision with the Commonwealth Court. In a later action on November 14, the PUC approved a revision to the current Energy Cost Rate (ECR) to collect the $28 million of withheld deferred fuel costs that were allowed by the Order. Finally, the Company was ordered to file a new ECR which permits the recovery of 80% of prospective fuel costs with the remaining 20% of fuel costs to be recovered through base rates. This new ECR is proposed to become effective at the end of the Limerick Unit No. 1 rate case.

Gas tariffs were reduced by approximately $28 million in several steps during the year due to supplier price decreases to the Company. These reductions did not affect earnings.

1985 Retail Base Rate Increases

	Application Date	Effective Date	Millions of Dollars Annual Revenue
Electric—Pa	4/27/84	1/25/85	$ 48.6
Electric—Pa	9/27/85	—	670.7*

*Net of $207.5 million of fuel savings

CHESTER COUNTY

World famous Longwood Gardens in scenic Chester County consists of 350 acres of outdoor gardens and woodlands, glassed conservatories encompassing 20 indoor gardens, and illuminated fountains.

Limerick Generating Station Update

On August 8, the Nuclear Regulatory Commission (NRC) voted to authorize a full-power operating license for Limerick Unit No. 1. This license replaced the low-power license, issued October 26, 1984, which limited operation of the reactor to 5% of full power.

Upon receipt of the full-power license, the Company increased the unit's power as called for in its start-up test program. However, on August 16, the NRC suspended operation above 5% of rated power as a result of an emergency stay order issued by the Third Circuit Court of Appeals in response to petitions filed by two intervenors in the NRC proceedings who had unsuccessfully opposed issuance of the Limerick license. After the filing of briefs and oral arguments, the Court removed the stay, and on August 21, the NRC lifted its suspension of the full-power license and the Company resumed testing at power levels above 5%.

Nuclear power plant start-up tests are conducted in a sequence that assures that all systems that are relied on for plant safety are fully tested. During the start-up phase, power is increased in steps that allow for the final setting of system controls to assure the reliable operation of the facility. In addition, start-up test data are recorded to provide operating guidelines throughout the life of the plant.

In Chester County, a community of energy efficient homes is being built by Amos Stolzfus, a noted Chester and Lancaster County builder. Here, Mr. Stolzfus (right) discusses his new community called "Wytheburn" with Robert B. Horne (left) of Western Division and Samuel E. Markley, Jr. (center) of Business Services.

The Limerick Unit No. 1 test program went extremely well and surpassed expectations. The program was completed in January 1986, and the unit was placed in commercial operation on February 1, 1986.

Water Requirements

A critical component of the permanent supplemental cooling water system for Limerick is the Point Pleasant Water Project, which was designed to be constructed and operated by the Neshaminy Water Resources Authority (NWRA), a municipal authority created by Bucks County, under a contract among NWRA, the Company and Bucks County. The Point Pleasant project has been the subject of substantial opposition from various groups, including a majority of the current Commissioners of Bucks County and a majority of the new members of the board of NWRA, which has resulted in interruption of construction and in litigation. In March 1985, appeals were filed by Bucks County and NWRA with the Commonwealth Court of Pennsylvania from the decision of the Court of Common Pleas of Bucks County which found the Point Pleasant contract to be valid and enforceable and ordered completion of the Project. In October 1985, the Commonwealth Court affirmed the decision of the Court of Common Pleas of Bucks County, and NWRA and Bucks County petitioned the Supreme Court of Pennsylvania for allowance of an appeal. Work on the project has been halted since early 1984.

During 1985, in order to provide an interim supply of supplemental cooling water necessary for the Limerick Unit No. 1 testing program, the Company applied to the Delaware River Basin Commission (DRBC) and obtained approvals for the modification of restrictions on the use of the Schuylkill River and the reallocation of cooling water to Limerick from two other fossil-fired power plants on the Schuylkill River. The DRBC approvals for the above-mentioned modifications of restrictions and reallocations were effective through December 31, 1985, and the Company has again filed requests with the DRBC for its 1986 supplemental cooling water needs pending resolution of the Point Pleasant project.

In September, Governor Thomas Kean of New Jersey and other dignitaries participated in ground breaking ceremonies for the Merrill Creek Project. This $217 million reservoir facility, which will be owned jointly by PE and six other electric utilities, is scheduled to be in service by May 1988 and will provide water for power plants along the Delaware River as well as Limerick. PE's share of the project cost will be $96 million.

Community involvement by the Company and its employees are an important contribution to our service area. Robert W. Kane of Energy Information and Education volunteers his services to the students and staff of the Chester County Child and Career Development Center, a school for children with learning disabilities.

Dolores E. McGuigan of Commercial Operations served as chairman of Bucks County's 1986 United Way Campaign. She is shown visiting the Bucks County Association for Retarded Citizens Preschool Center in Croydon, a United Way agency.

Located near Phillipsburg, New Jersey, about 50 miles north of Philadelphia, Merrill Creek is a small tributary of the Delaware River which is being dammed to create a 15 billion gallon reservoir. Water will be stored there when it is plentiful; then, during times of extreme low flow on the Delaware, this stored water will be returned to the Delaware River to replace the water the project owners use in operating their power plants. This will ensure that the region's electric generation needs will not be curtailed due to lack of water. Construction of a water storage facility was ordered by the DRBC in connection with its authorization to take water from the Delaware River for certain generating units, including Limerick.

Curtis S. Ruddle, Jr. of Eastern Division makes an aerial inspection of the Highlands, a new residential community of approximately 1,300 homes. Located in Chalfont, Bucks County, the homes are part of PE's Excellence in Energy Efficiency (EEE) Program and will have heat pumps.

Marketing

The Company continued to aggressively market programs designed to encourage the use of high-efficiency equipment and appliances and to promote greater off-peak use of our energy services.

Much of our marketing effort is directed to electric space heating. Our territory experienced a record level of commercial construction in 1985—16 million square feet of new space underway. Over 65% will be heated electrically, while 18% will be heated by Company gas, resulting in a total Company penetration of 83% in this important market.

The residential market was also unusually active with 12,200 new units connected. Electric space heating was installed in 65% of these units. Heat pumps, which are actively promoted by the Company because of their efficiency and economy, will heat and cool 58% of these new dwelling units. Another 23% will have gas heat, so that over 88% of new homes in the service territory will be heated with PE's efficient, clean energy products.

Area Development

Southeastern Pennsylvania is on the move and Philadelphia Electric Company continues to play a leading role in promoting economic development in the area. Capitalizing on the successful theme, "We Know the Territory", Area Development's radio and print advertising continues to promote the many benefits the Greater Philadelphia metropolitan area has to offer.

B U C K S   C O U N T Y

*B*ucks County offers abundant visual wealth and has attracted a community of artists and craftmen. Noted furniture designer George Nakashima inspects wooden slabs at his studio in New Hope.

The resurgence in the area's economy has been led by the non-manufacturing sector. Service industries, particularly medical and health care, have shown the greatest strength. Southeastern Pennsylvania has also become a strong center for finance, insurance and real estate. The area's unemployment rate of 5.7% is well below the national average.

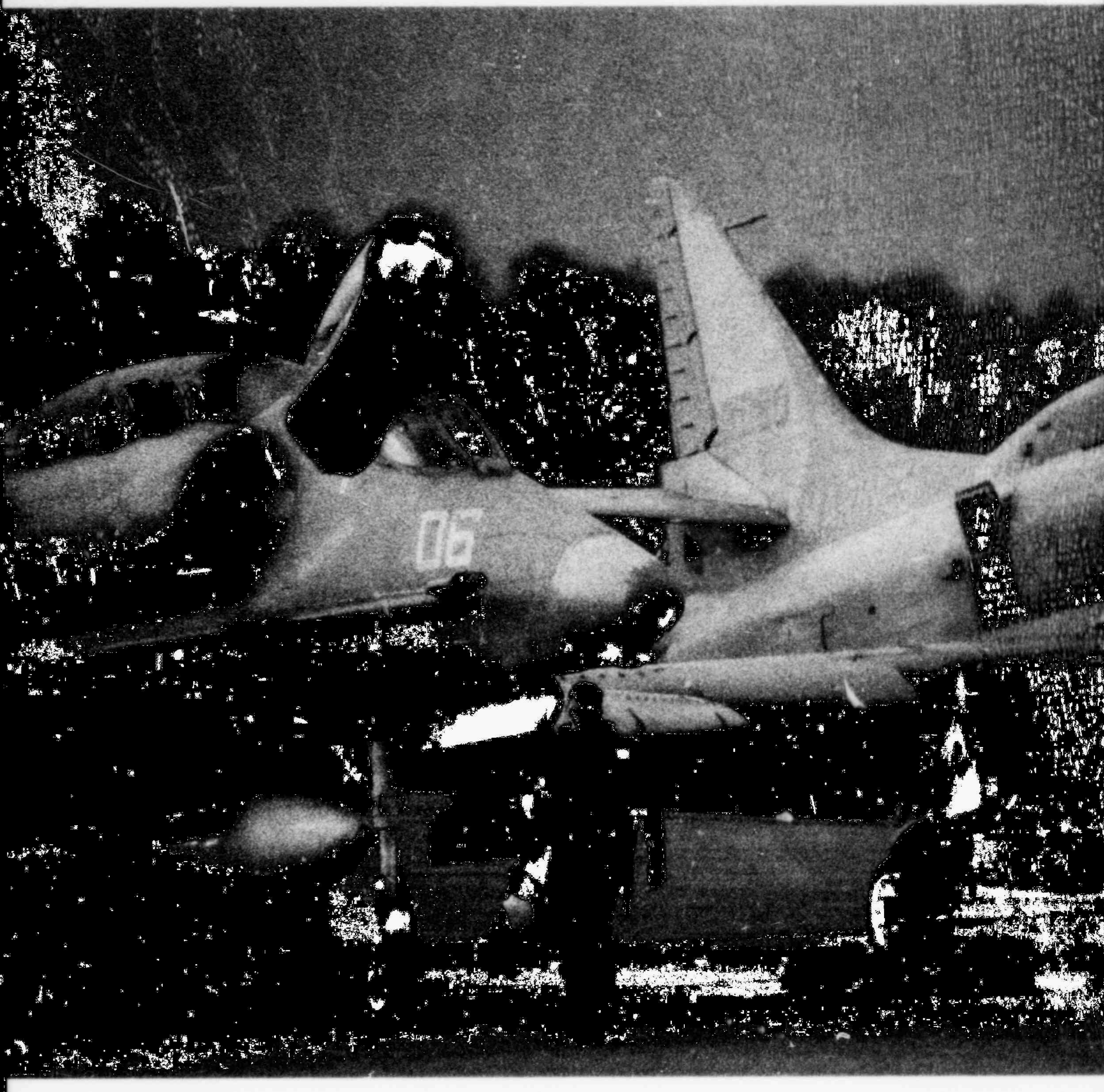
Southeastern Pennsylvania continues to be one of the leading high-tech areas in the country. The rapidly expanding Route 202 corridor was host this year to President Reagan when he barnstormed across the country to seek support for his tax plan. The area is one of the prime markets in the country for real estate investment. In downtown Philadelphia alone over 10 million square feet of new and rehabilitated office space is planned or under construction.

Aided by the strength of the local economy and the success of our promotional programs, the Area Development Department located 49 new firms which will result in 3,200 new jobs. In addition, it assisted in the retention of 62 existing business involving 5,800 jobs.

Cogeneration

The Company assists customers interested in installing their own systems to produce electricity by providing technical and cost-benefit analyses. Several customers are installing large systems, including Scott Paper and SmithKline Beckman. Meanwhile, six customers have installed small engine-generator sets of less than 300 kilowatts each to generate a portion of their power requirements. While some utilities along the Gulf Coast and the far west have large potential for cogeneration, the

MONTGOMERY COUNTY



Willow Grove Naval Air Station in Montgomery County is one of several major military installations in the Company's service territory. Major Peter Meyer of Marine Aircraft Group 49 completes a test flight.

Company's service area is not expected to be significantly impacted due to the small number of manufacturing or commercial customers which could find cogeneration to be cost-effective.

Conservation

The Company is continuing to pursue an extensive energy conservation program including its Residential Conservation Service (RCS) which has audited 16,500 homes for existing customers, its Tighten-Up/Low-Cost Conservation (TLC) program which has helped to weatherize 3,000 dwelling units for lower income families, and its Excellence in Energy Efficiency (EEE) program for new homes.

Excellence in Energy Efficiency (EEE) is a new and innovative program designed to encourage area builders to construct better houses for new home buyers, our future customers. Its goal is to achieve reduced energy bills, an increased level of comfort, and improved satisfaction with electric and gas service. To qualify for the EEE program, a builder must meet stringent construction standards that are above those required by statutes in these four basic areas: efficiencies of the heating and cooling equipment, design of the distribution system, air infiltration, and domestic water heating. The response has been outstanding with 99 builders having requested evaluation for EEE compliance.

Electric Operations

Although Limerick received the major share of the Company's publicity during the year, significant efforts were also taking place at other plants, notably the Peach Bottom Atomic Power Station. Peach Bottom Unit No. 2 returned to service in July 1985, after an outage for its sixth refueling as well as major pipe replacement. Stainless steel piping connected to the reactor vessel was replaced with an improved alloy pipe to prevent weld cracking. This project incorporated a modified pipe system design to reduce the number of welds. This replacement involved the efforts of approximately 650 craftsmen and engineers at peak times and was the largest plant modification ever undertaken on the Company's system. The total cost of the replacement was $85 million of which the Company's share was $36 million. An extensive restart testing program, similar to that required for a new plant, was carried out to assure that no conditions or system characteristics were created during the outage which would in any way jeopardize the safe operation of the plant.

William G. Gotshall of Safety Division, currently serving as fire chief of the Enterprise Fire Company in Hatboro, has served as a volunteer firefighter for 22 years.

Likewise, Peach Bottom Unit No. 3 was shut down for a scheduled refueling and pipe inspection in July 1985. Weld cracks were found in the stainless steel piping connected to the reactor vessel and were repaired using a weld overlay technique. The unit is expected to be returned to service in February 1986. A pipe replacement program similar to that performed on Unit No. 2 is being studied for the next scheduled refueling outage in early 1987.

In 1985, Salem Unit No. 1 established a new United States record for electrical production in a calendar year by a single unit, operating at full capacity 95.3% of the time. Salem Unit No. 2 returned to full operation in May and operated at 76.1% of full capacity for the remainder of the year. However, as a result of lower oil prices, the unit did not fully achieve its contemplated fuel savings that the Company agreed to guarantee, necessitating an $8 million charge against 1985 pre-tax income. The Company owns 42.59% of the Salem Generating Station which is operated by Public Service Electric and Gas Company.

Buildings under construction in this Blue Bell office complex typify the strong office growth in the neighboring counties. An additional 16 million square feet of office space were underway in 1985, particularly in the Chester and Montgomery County areas of Great Valley, King of Prussia, Blue Bell, Plymouth Meeting, and Willow Grove.

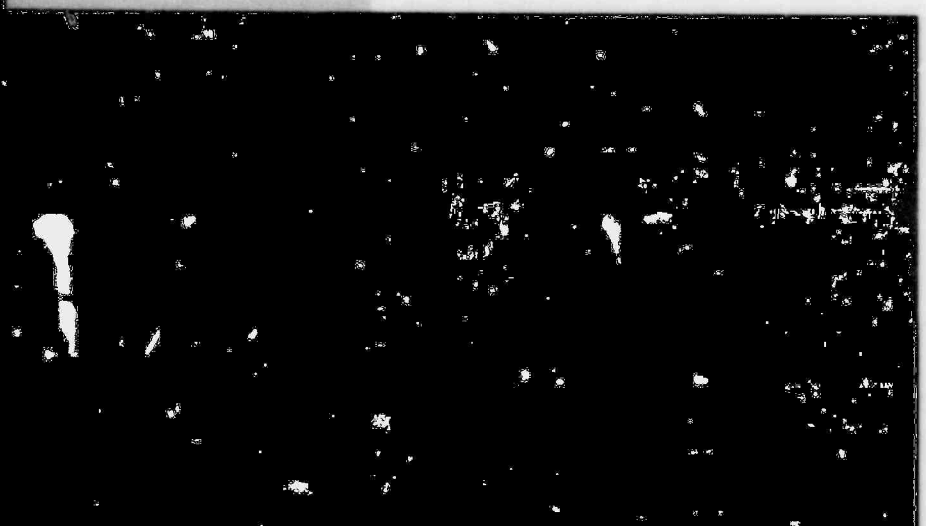
Eddystone Station celebrated its 25th anniversary in October. When first completed in 1960, the two super-critical, high-pressure, coal-fired units were the most efficient in the world. The station has more than doubled its generating capacity since the initial operation of these pioneering base load units with total capacity now equaling 1.5 million kilowatts, enough to serve a city of 650,000 people. The station achieved another engineering milestone in 1983 by installing a particulate and sulfur dioxide removal system, or scrubbers, which utilize a unique magnesium oxide regeneration system to remove in excess of 90% of the sulfur dioxide from the flue gas.

The Company's new magnesium oxide regeneration facilities, located at Allied Chemical Company in Claymont, Delaware, and Essex Chemical Company in Clifton, New Jersey, continued to perform well during 1985. The regeneration equipment at these sites separates the suflur dioxide from the magnesium sulfite by-product of the flue gas scrubbing systems at the Eddystone and Cromby coal-burning stations and recovers the mag-

Robert E. Bryson of Conowingo Power Company (a PE subsidiary) visits with Dolph Stiles of W. L. Gore and Associates, Inc. at the Fair Hill Plant in Maryland. The company manufacturers industrial filtration and pollution control products in seven plants in Maryland and approximately 40 plants throughout the world.

nesium oxide for reuse in the scrubbers. During 1985, the the process reclaimed 18,300 tons of magnesium oxide for reuse and supplied 19,600 tons of sulfur dioxide to the chemical companies for the production of sulfuric acid. Regeneration of the scrubber by-product not only provides economic recovery of the magnesium oxide, it also eliminates the need for the disposal of thousands of tons of scrubber waste in landfill sites.

The Company owns 21% of the Keystone and Conemaugh mine-mouth, coal-fired stations in western Pennsylvania which have a combined capacity of 3.4 million kilowatts. Both stations continued to perform well during 1985 and PE's share of their output was 4.4 billion kilowatthours. The high level of performance of these stations is directly attributable to capital investments which were made during recent years to increase the efficiency and reliability of these economic units. Both Keystone and Conemaugh receive coal directly from mines located near plant sites.



PE continued to make optimum use of its transmission connections with systems outside the Pennsylvania-New Jersey-Maryland Interconnection (PJM), enabling the Company to buy economical coal-fired power rather than using its oil-burning units. These arrangements, combined with normal PJM purchases, minimized the operation of the higher-priced, oil-fired generating units on the Company's system. In 1985, 10.3 billion kilowatthours of economical power, representing 34% of the Company's total output, were purchased by PE. The resultant savings of approximately $135 million were passed on to PE customers.

The Company's Electric Transmission and Distribution (T&D) forces had another busy year in 1985. The interruption of electric service to about 190,000 customers caused by the high winds of Hurricane Gloria made it the fourth most severe storm in the Company's history. Due to the efforts of more than 1,400 employees, service was restored to all customers in about two days. At the completion of the work on the Company's system, more than 200 employees were sent to Long Island and New England to aid in the restoration of service in those areas under an industry-wide mutual assistance program. In addition to dealing with an extraordinary occurrence like Hurricane Gloria as well as the more typical emergency situations, the T&D department experienced its busiest year since 1979 in constructing facilities to serve new customers.

The Company has acquired two new electronic systems to aid in predicting the size and severity of storms such as Gloria which approach the Company's system. The first, a new color weather radar, shows levels of

Thoroughbred horse racing and breeding are the major activities of Windfields Farm in Chesapeake City, Maryland. This customer of PE subsidiary Conowingo Power Company became the all-time leading breeder of stakes winners in the 1970s and 1980s.

Boat House Row along the Schuylkill River is a famous center-city landmark.

precipitation throughout the service territory and well beyond. The second, a computerized lightning detection system, locates cloud-to-ground lightning strikes anywhere along the east coast. The information from both systems is used by me Company to anticipate storm activity and to better allocate manpower in order to reduce the service restoration time to Company customers affected by the storms.

Gas Operations

Philadelphia Electric Company has consistently been a leader in the gas utility industry in developing and using new technology. The pipeline insertion machine (PIM) for cast iron gas main replacement continues this tradition. PIM is a unique, cost-effective system that permits the in-place replacement of cast iron gas mains with polyethelene gas pipe of the same or larger diameter.

Travelling at speeds up to seven feet per minute, the PIM, guided by a winch-pulled cable, is pneumatically pushed through the existing cast iron main, shattering the old pipe as it moves and simultaneously pulling the new rigid plastic sleeve to fill the void left by the existing cast iron pipe. This later serves as a conduit through which a new polyethylene plastic gas main is inserted. The method yields many benefits for the Company, the most significant and obvious being less excavation and restoration of paving.

An oversupply of natural gas in the interstate market continued to depress prices throughout 1985. The Company took full advantage of the soft natural gas market through reduced commodity rates from both of its interstate pipeline suppliers, and by purchasing 25% of its annual supply through spot transactions at a savings of $14.9 million. Reductions in the Company's gas rates totaling $28 million per year made in September and November passed these savings through to our customers.

In addition, the Company transported and delivered 10.3 billion cubic feet of gas purchased directly by large end-users for consumption at their local facilities.

Other Developments

In 1985, the Company installed a 40 kilowatt prototype fuel cell on the site of the Variety Club children's camp in Worcester, Pennsylvania, as a joint research effort funded by the Gas Research Institute, the U. S. Department of Energy and PE. The fuel cell uses natural gas as fuel. By a process similar to that of an electric battery, it converts the chemical energy contained in the gas to direct current. This current is converted to alternating current and fed into the distribution system. The waste energy from the process is used to heat a large indoor swimming pool used for rehabilitation therapy. Although not economic in its present configuration, the fuel cell concept holds promise for the future. It could ultimately utilize gasified coal to produce electric power in large central stations. The Company is following advanced fuel cell concepts with great interest.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

General. The revenue growth of recent years has been accompanied by substantial increases in operating costs and carrying charges on increased investment in plant and equipment. Any future increases in such costs and charges may be expected to adversely affect future net income and earnings per average common share unless periodic rate relief is obtained to offset them. The capital carrying charges associated with the construction of Limerick, which are capitalized by crediting income with an allowance for funds used during construction (AFUDC) and recovered through future depreciation, continued to represent a major portion of net income during 1985. These charges will decrease as the commercial operation of Limerick Unit No. 1 is reflected in revenue. On September 27, 1985, the Company filed with the Pennsylvania Public Utility Commission (PUC) for an additional $671 million per year in electric revenue, net of fuel savings, to recover the costs associated with placing Unit No. 1 and one hundred percent of common plant in rate base. The PUC is expected to issue a final order in late June 1986. The Company has PUC approval to utilize an accounting treatment which synchronizes the expense accounting for Limerick Unit No. 1 with rate recognition of the unit.

On January 25, 1985, a $150 million per year base rate increase for electric service was put into effect to recover the costs associated with placing Salem Unit No. 2 in rate base. Output from the unit had previously been sold to Jersey Central Power & Light Company under a contract which expired on December 31, 1984. Despite the increase in electric rates granted in January 1985, the return on investment is still below that allowed by the PUC as a fair return in the Company's last rate order.

Electric Operating Revenue. Increased electric revenue in 1985 over 1984 is primarily attributable to higher base rates. Revenue associated with Salem Unit No. 2 output, formerly sold to Jersey Central Power & Light Company, is now reflected in the base rates for retail customers. The increase in 1984 compared with 1983 reflected higher base rates and higher fuel-related revenue. Kilowatthour sales of electricity to retail customers were essentially the same in 1985 and 1984.

Electric Revenue

Increase/(Decrease) Millions of Dollars	'85 vs. '84	'84 vs. '83
Rate Increases	$141.4	$140.0
Fuel-Related Revenue	(2.8)	104.0
Salem Unit No. 2	(67.0)	36.5
Other	8.9	47.3
Total	$ 80.5	$327.8

Gas Operating Revenue. Decreased gas revenue in 1985 compared with 1984 is attributable to a decrease in sales and lower fuel-related revenue resulting from reductions in the price of gas purchased from suppliers. Gas operating revenue net of fuel costs increased 6.7 percent in 1985 over 1984.

Fuel and Energy Interchange Expense. For accounting purposes, fuel and energy interchange costs are deferred until billed as fuel adjustment revenue. In 1985, gross fuel and energy interchange costs were $212 million lower than in 1984 due primarily to the excellent nuclear performance of Salem Station. Fuel and energy interchange costs deferred in previous years and charged to expense in 1985 amounted to $135 million, resulting in net fuel and energy interchange expense remaining essentially the same in 1985 as in 1984. Included in net fuel and energy interchange expense in 1985 was approximately $73 million of replacement energy costs associated primarily with Salem Unit No. 1 outages in 1983 and 1984 and costs incurred during the operation of the Company's flue gas scrubbing systems at coal-burning stations in 1983. Recovery of these costs was disallowed by the PUC in an order which the Company has appealed. Also included was an $8 million charge in recognition that Salem Unit No. 2 fuel savings were not expected to reach the minimum guaranteed to the PUC when the unit was included in the rate base. The $73 million write-off and the $8 million Salem charge reduced 1985 earnings by approximately 23 cents per share.

In 1984, gross fuel and energy interchange costs were essentially the same as in 1983. However, electric fuel costs deferred were lower by $104.2 million, resulting in a net increase in fuel and energy interchange expense compared with 1983.

Other Operating and Maintenance Expenses. Other operating and maintenance expenses have increased in the last two years due to inflation, growth in utility plant, and increased costs associated with the Company's nuclear generating units and with operating the new flue gas scrubbing systems at the Company's two coal-burning stations.

Depreciation. Increases in depreciation in the last two years reflect additions to plant in service.

Income Taxes. Income taxes charged to operations decreased in 1985 compared with 1984 as a result of lower operating income. Income tax credits, net, included in other income, have increased in the last two years as a result of the higher allowance for borrowed funds used during construction.

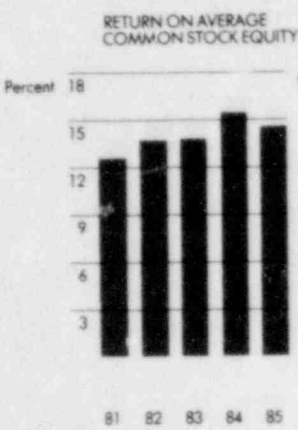
Other Taxes. Other taxes have increased primarily due to higher capital stock and realty taxes.

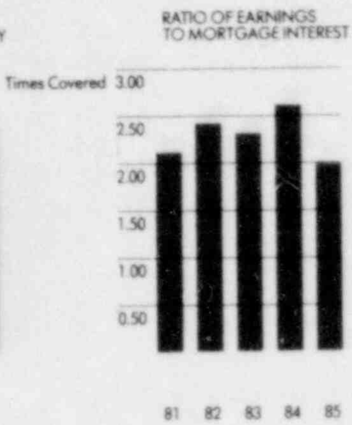
Allowance for Funds Used During Construction. The increases in AFUDC for the last two years have resulted primarily from increases in construction work in progress.

Interest Charges. Interest charges on debt increased in the last two years due to additional debt outstanding. The ratio of earnings to mortgage interest, which is one measure of the Company's ability to issue additional mortgage bonds, was 1.98 times at December 31, 1985.

Capital Expenditures and Changes in Financial Position. The Company is carrying on a construction program which is estimated to require expenditures of $771 million in 1986 and $2.9 billion from 1987 to 1989. A majority of these expenditures relates to the construction of the Company's second 1055 mW nuclear generating unit at Limerick. Successful completion of this program is dependent on the Company's ability to obtain external financing, primarily through debt arrangements and sales of equity securities which are subject to market conditions and to meeting certain earnings tests. The program also is subject to the licensing requirements of the Nuclear Regulatory Commission, to financing approvals by the PUC, and to change due to litigation. The Company cannot predict the outcome of such regulatory reviews, but believes the safety requirements have been or will be met, the economic desirability of the program has been demonstrated, and that the program will be successfully completed and approved.

Interim financing of the construction program is provided by commercial paper borrowings and short- and intermediate-term bank loans, which also are dependent on the Company's financial position.





Accountants' Report

To the Shareholders and Board of Directors
Philadelphia Electric Company

We have examined the consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1985 and 1984, and the related consolidated statements of income, retained earnings, changes in common stock, preferred stock, and other paid-in capital, and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1985 and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Mellon Bank Center
Philadelphia, Pennsylvania
February 3, 1986

Coopers + Lybrand

Consolidated Statements of Income

For the Year Ended December 31	1985	1984	1983
	(Thousands of Dollars)		
Operating Revenues			
Electric	**$2,516,191**	$2,435,731	$2,107,897
Gas	**428,984**	462,966	417,042
Steam	**68,529**	82,320	71,111
Total Operating Revenues	**3,013,704**	2,981,017	2,596,050
Operating Expenses			
Fuel and Energy Interchange	**1,139,553**	1,122,177	986,634
Other Operating Expenses	**565,713**	527,060	449,101
Maintenance	**265,173**	245,583	222,640
Depreciation	**184,965**	178,326	165,327
Income Taxes	**201,823**	246,749	200,026
Other Taxes	**241,524**	206,863	178,615
Total Operating Expenses	**2,598,751**	2,526,758	2,202,343
Operating Income	**414,953**	454,259	393,707
Other Income and Deductions			
Allowance for Other Funds Used During Construction	**176,310**	134,485	108,126
Income Tax Credits, Net	**133,415**	116,423	87,912
Other, Net	**(3,464)**	239	(3,125)
Total Other Income and Deductions	**306,261**	251,147	192,913
Income Before Interest Charges	**721,214**	705,406	586,620
Interest Charges			
Long-Term Debt	**435,373**	402,475	330,200
Short-Term Debt	**17,721**	30,912	35,199
Allowance for Borrowed Funds Used During Construction	**(257,181)**	(220,370)	(167,868)
Net Interest Charges	**195,913**	213,017	197,531
Net Income	**525,301**	492,389	389,089
Preferred Stock Dividends	**90,577**	82,682	67,384
Earnings Applicable to Common Stock	**$ 434,724**	$ 409,707	$ 321,705
Average Shares of Common Stock Outstanding (Thousands)	**169,784**	151,804	133,852
Earnings Per Average Common Share (Dollars)	**$2.56**	$2.70	$2.40
Dividends Per Common Share (Dollars)	**$2.20**	$2.20	$2.12

See notes to financial statements.

Philadelphia Electric Company and Subsidiary Companies

Consolidated Balance Sheets

ASSETS

December 31	1985	1984
	(Thousands of Dollars)	
Utility Plant, at original cost		
Electric	**$ 4,982,099**	$4,806,496
Gas	**474,599**	443,946
Steam	**54,138**	53,846
Common, used in all services	**132,323**	129,649
	5,643,159	5,433,937
Less: Accumulated Depreciation	**1,824,420**	1,726,321
Net Utility Plant in Service	**3,818,739**	3,707,616
Construction Work in Progress	**4,929,093**	4,400,166
Leased Property, net	**338,141**	352,133
Net Utility Plant	**9,085,973**	8,459,915
Investments	**87,670**	80,871
Current Assets		
Cash and Temporary Cash Investments	**188,785**	30,357
Escrow Deposits	**13,301**	88,076
Accounts Receivable		
Customers	**348,233**	346,018
Other	**22,687**	38,284
Inventories, at average cost		
Fossil Fuel	**63,594**	93,004
Materials and Supplies	**60,152**	57,532
Deferred Energy Costs	**101,655**	229,895
Compensated Absences	**46,370**	41,478
Other	**12,101**	7,392
Total Current Assets	**856,878**	932,036
Deferred Debits	**134,793**	82,907
Total	**$10,165,314**	$9,555,729

See notes to financial statements.

CAPITALIZATION AND LIABILITIES

December 31	1985	1984
	(Thousands of Dollars)	
Capitalization		
Common Shareholders' Equity		
Common Stock	$ 2,601,989	$2,360,948
Other Paid-In Capital	7,331	6,727
Retained Earnings	583,728	523,300
	3,193,048	2,890,975
Preferred Stock		
Without Mandatory Redemption	572,472	572,472
With Mandatory Redemption	318,309	326,235
Long-Term Debt	4,309,131	3,777,961
Total Capitalization	8,392,960	7,567,643
Current Liabilities		
Short-Term Debt		
Bank Loans	1,000	20,000
Pollution Control Notes	—	240,000
Long-Term Debt Due Within One Year	80,800	50,361
Capital Lease Obligations Due Within One Year	76,326	68,332
Accounts Payable	144,407	156,245
Taxes		
Accrued	58,509	40,314
Deferred Income Taxes-Energy	51,814	117,729
Interest Accrued	93,008	91,110
Dividends Declared	40,698	43,796
Compensated Absences	46,370	41,478
Other	25,583	85,749
Total Current Liabilities	618,515	955,114
Deferred Credits and Other Liabilities		
Deferred Income Taxes	502,621	373,343
Unamortized Investment Tax Credits	302,409	299,419
Capital Lease Obligations	261,815	283,802
Other	86,994	76,408
Total Deferred Credits and Other Liabilities	1,153,839	1,032,972
Total	$10,165,314	$9,555,729

Consolidated Statements of Changes in Financial Position

For the Year Ended December 31	1985	1984	1983
		(Thousands of Dollars)	
Sources of Funds			
Funds From Operations			
Net Income	$ 525,301	$ 492,389	$ 389,089
Principal Non-Cash Charges (Credits) to Income			
Depreciation	184,965	178,326	165,327
Nuclear Fuel Disposal Costs	5,601	13,201	12,166
Deferred Income Taxes	66,281	76,197	175,307
Investment Tax Credits, Net of Amortization	3,567	49,927	(46,064)
Allowance for Other Funds Used During Construction	(176,310)	(134,485)	(108,126)
Total from Operations	609,405	675,555	587,699
Funds from Financings			
Sales of Securities			
Common Stock	241,041	250,445	284,305
Preferred Stock	—	100,000	150,000
Long-Term Debt	686,000	258,700	175,000
Short-Term Pollution Control Notes	—	240,000	—
Net Borrowings Under Revolving Credit Agreements	150,000	200,000	200,000
Sale of Magnesium Oxide Regeneration Facilities	—	55,928	37,679
Increase in Capital Lease Obligations	46,364	12,690	72,514
Increase in Short-Term Debt	—	—	202,800
Total from Financings	1,123,405	1,117,763	1,122,298
Total Sources	$1,732,810	$1,793,318	$1,709,997
Uses of Funds			
Additions to Utility Plant	$ 826,609	$1,053,133	$1,030,321
Additions to Leased Assets	46,364	12,690	72,514
Allowance for Other Funds Used During Construction	(176,310)	(134,485)	(108,126)
Dividends on Preferred and Common Stock	464,003	418,098	352,553
Retirement of Long-Term Debt	273,394	11,194	41,573
Premium on Retirement of Long-Term Debt	48,589	—	—
Redemption of Preferred Stock	7,926	8,628	7,427
Redemption of Short-Term Pollution Control Notes	240,000	—	—
Decrease in Short-Term Debt	19,000	247,500	—
Net Change in Deferred Energy Costs	(128,240)	80,649	234,625
Net Change in Nuclear Fuel Escrow Account	(51,816)	32,160	7,113
Net Change in Other Items of Working Capital	153,528	50,340	71,451
Other, Net	9,763	13,411	546
Total Uses	$1,732,810	$1,793,318	$1,709,997

See notes to financial statements.

Consolidated Statements of Retained Earnings

For the Year Ended December 31	1985	1984	1983
	(Thousands of Dollars)		
Balance, January 1	**$ 523,300**	$452,964	$423,596
Net Income	**525,301**	492,389	389,089
	1,048,601	945,353	812,685
Cash Dividends Declared			
Preferred Stock (at specified annual rates)	**90,524**	83,820	68,970
Common Stock (per share, $2.20 in 1985 and 1984, $2.12 in 1983)	**373,479**	334,278	283,583
Expenses of Issuing Preferred and Common Stock	**870**	3,955	7,168
	464,873	422,053	359,721
Balance, December 31	**$ 583,728**	$523,300	$452,964

Consolidated Statements of Changes in Common Stock, Preferred Stock and Other Paid-in Capital

	Common Stock		Preferred Stock		Other Paid-In Capital
	Shares	Amount	Shares	Amount	
	(All Amounts in Thousands)				
Balance, January 1, 1983	125,767	$1,826,198	6,648	$664,762	$4,641
Issuance of Stock					
Public Sales	11,000	186,055	1,500	150,000	—
Employee Stock Ownership Plans	1,256	21,054	—	—	—
Dividend Reinvestment and Stock Purchase Plan	4,788	77,196	—	—	—
Redemptions	—	—	(75)	(7,427)	1,215
Balance, December 31, 1983	142,811	2,110,503	8,073	807,335	5,856
Issuance of Stock					
Public Sales	11,613	144,548	1,000	100,000	—
Employee Stock Ownership Plans	914	10,563	—	—	—
Dividend Reinvestment and Stock Purchase Plan	6,965	95,334	—	—	—
Redemptions	—	—	(86)	(8,628)	871
Balance, December 31, 1984	162,303	2,360,948	8,987	898,707	6,727
Issuance of Stock					
Public Sales	**7,387**	**115,008**	—	—	—
Employee Stock Ownership Plans	**873**	**15,294**	—	—	—
Dividend Reinvestment and Stock Purchase Plan	**7,117**	**110,739**	—	—	—
Redemptions	—	—	**(79)**	**(7,926)**	**604**
Balance, December 31, 1985	**177,680**	**$2,601,989**	**8,908**	**$890,781**	**$7,331**

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

General. All utility subsidiary companies of Philadelphia Electric Company are wholly owned and are included in the consolidated financial statements. Nonutility subsidiaries are included in investments and accounted for by 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. Revenues are recorded in the accounts upon billing to the customer. Rate increases are billed from dates authorized or permitted to become effective by the regulatory authorities.

Fuel Expenses. Fuel expenses, which are recoverable under energy adjustment clauses, are recognized when the related revenue is billed to customers. Nuclear fuel used in the Peach Bottom and Salem Generating Stations is leased, and the costs of such leased fuel are charged to fuel expense on the unit of production method. Nuclear fuel disposal costs are being charged to fuel expense as the related fuel is burned.

Depreciation. 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. The estimated decommissioning costs of nuclear plants, totaling approximately $181,862,000 at December 31, 1985, are being charged to operations as permitted for rate-making purposes. The amounts charged are deposited in an escrow account and invested for funding of future costs. The Company believes that any increase in the estimated costs would be recoverable through adjustments of rates charged to its customers. Annual depreciation provisions, expressed as a percent of average depreciable utility plant in service, were approximately 3.35% for 1985, 3.29% for 1984 and 3.20% for 1983.

Income Taxes. Deferred income taxes are provided for differences between book and taxable income to the extent permitted for rate-making purposes. Investment tax credits, other than credits resulting from contributions to employee stock ownership plans, which do not affect income, are deferred and amortized to income over the estimated useful life of the related utility plant.

Allowance for Funds Used During Construction (AFUDC). AFUDC is a non-cash item which is defined in the uniform systems 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 equivalent credits are to "Interest Charges" for the pretax cost of borrowed funds and to "Other Income" for the remainder as the allowance for equity funds. The rate used for capitalizing AFUDC, which averaged 9.5% in 1985, 9.4% in 1984, and 9.3% in 1983, is 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." AFUDC is not included in taxable income and the depreciation of capitalized AFUDC is not tax deductible.

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.

2. JOINTLY OWNED ELECTRIC UTILITY PLANT

The Company's ownership interests in jointly owned utility plant at December 31, 1985, were as follows:

	Production Plants					Transmission Plant
	Peach Bottom	Salem	Keystone	Conemaugh	Merrill Creek	
Operator	Philadelphia Electric Company	Public Service Electric and Gas Company	Pennsylvania Electric Company	Pennsylvania Electric Company	Jersey Central Power & Light Company	Various Companies
Participating Interest	42.49%	42.59%	20.99%	20.72%	44.24%	21% to 43%
	(Thousands of Dollars)					
Company's share of:						
Utility Plant	$510,652	$903,473	$60,683	$62,186	—	$68,658
Accumulated Depreciation	120,522	145,577	23,464	23,520	—	13,991
Construction Work In Progress	12,717	19,936	7,791	2,469	$18,458	—

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.

3. COMMON STOCK

At December 31, 1985 and 1984, Common Stock, without par value, consisted of 240,000,000 shares authorized and 177,679,977 and 162,303,390 shares, respectively, outstanding. At December 31, 1985, there were 8,394,449 shares reserved for issuance under stock purchase plans.

4. PREFERRED STOCK

At December 31, 1985 and 1984, Preferred Stock $100 par, cumulative

			Shares			Amount	
				Outstanding			
	Current Redemption Price (a)	Refunding Restricted Prior to (b)	Authorized	**1985**	1984	**1985**	1984
						(Thousands of Dollars)	
Series (without mandatory redemption)							
14.15% (c)	$114.15	2-1-90	500,000	**500,000**	500,000	**$ 50,000**	$ 50,000
13.35% (c)	113.35	2-1-89	750,000	**750,000**	750,000	**75,000**	75,000
12.8% (c)	112.80	5-1-88	750,000	**750,000**	750,000	**75,000**	75,000
9.50%	103.50		750,000	**750,000**	750,000	**75,000**	75,000
8.75%	104.00		650,000	**650,000**	650,000	**65,000**	65,000
7.85%	103.00		500,000	**500,000**	500,000	**50,000**	50,000
7.80%	103.00		750,000	**750,000**	750,000	**75,000**	75,000
7.75%	103.00		200,000	**200,000**	200,000	**20,000**	20,000
4.68%	104.00		150,000	**150,000**	150,000	**15,000**	15,000
4.4%	112.50		274,720	**274,720**	274,720	**27,472**	27,472
4.3%	102.00		150,000	**150,000**	150,000	**15,000**	15,000
3.8%	106.00		300,000	**300,000**	300,000	**30,000**	30,000
			5,724,720	**5,724,720**	5,724,720	**572,472**	572,472
Series (with mandatory redemption) (d)							
17.125%	$117.13	5-1-87	300,000	**300,000**	300,000	**30,000**	30,000
15.25%	110.00	5-1-90	500,000	**500,000**	500,000	**50,000**	50,000
14.625%	108.70 (e)	5-1-90	500,000	**500,000**	500,000	**50,000**	50,000
10%	104.44	5-1-90	220,000	**220,000**	220,000	**22,000**	22,000
9.52%	106.25	5-1-86	500,000	**393,690**	401,650	**39,369**	40,165
8.75%	105.15	5-1-88	500,000	**433,400**	466,700	**43,340**	46,670
7.325%	103.81		750,000	**540,000**	570,000	**54,000**	57,000
7%	101.00		400,000	**296,000**	304,000	**29,600**	30,400
			3,670,000	**3,183,090**	3,262,350	**318,309**	326,235
Unclassified			605,280	**—**	—	**—**	—
Total Preferred Stock			10,000,000	**8,907,810**	8,987,070	**$890,781**	$898,707

(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 cost or dividend rate which is less than the dividend rate of such series.

(c) Ownership of these series of Preferred Stock is evidenced by Depositary Preference Shares, each representing 1/10 of a share of Preferred Stock.

(d) Sinking Fund requirements (par value) in the period 1986-1990 are as follows: 1986-$14,599,000; 1987-$15,230,000; 1988-$17,530,000; 1989-$17,530,000; 1990-$27,530,000.

(e) Not redeemable prior to May 1, 1990.

5. LONG-TERM DEBT

At December 31, 1985 and 1984

	Series	Due	**1985**	1984
			(Thousands of Dollars)	
First and Refunding Mortgage Bonds (a)				
	3-1/8%	1985	—	$ 50,000
	4-3/8%	1986	**$ 50,000**	50,000
	4-5/8%	1987	**40,000**	40,000
	3-3/4%-14%	1988	**52,500**	52,500
	5%-14%	1989	**62,500**	62,500
	14%	1990	**11,000**	11,000
	4-1/2%-14%	1991-1995	**508,225**	359,700
	6-1/8%-15-1/4%	1996-2000	**608,684**	610,817
	7-3/8%-12-1/2%	2001-2005	**480,000**	480,000
	6%-18-3/4%	2006-2010	**447,369**	523,500
	10-1/2%-18%	2011-2015	**745,283**	350,000
Total First and Refunding Mortgage Bonds			**3,005,561**	2,590,017
Notes Payable—Banks	(b)	1987-1989	**225,000**	225,000
Notes Payable—Other	17%	1986-1987	**20,000**	20,000
Revolving Credit and Term Loan Agreements	(c)	1988-1991	**550,000**	400,000
Pollution Control Notes	5-1/2%-13%	1997-2013	**272,685**	274,190
Debentures	4.85%	1986	**20,800**	21,161
Debentures	14-1/8%	1990	**50,000**	50,000
Debentures	14-3/4%	2005	**100,000**	100,000
Debentures	14.5%	2009	**150,000**	150,000
Sinking Fund Debentures— Philadelphia Electric Power Company, a Subsidiary	4-1/2%	1995	**15,325**	16,397
Unamortized Debt Discount and Premium, Net			**(19,440)**	(18,443)
Total Long-Term Debt			**4,389,931**	3,828,322
Due Within One Year (d)			**80,800**	50,361
Long-Term Debt included in Capitalization(e)			**$4,309,131**	$3,777,961

(a) Utility plant is subject to the lien of the Company's mortgage. Proceeds from the November, 1985 sale of $250,000,000 principal amount of 11-3/4% Series due 2014 and $150,000,000 principal amount of 10-7/8% Series due 1995 were used in part to repurchase $76,131,000 principal amount of 18-3/4% Series due 2009, $62,621,000 principal amount of 18% Series due 2012, and $78,096,000 principal amount of 17-5/8% Series due 2011. Premium on the repurchase of $48,588,515 was charged to Deferred Debits. The Company, in its currently pending electric rate case, will request the PUC to allow recovery in rates of this amount over the weighted average life of the new debt, approximately 21 years. Amortization of the premium will be charged to interest expense over the period of recovery.

(b) At interest rates ranging from prime rate to prime rate plus 1/2%.

(c) The Company has a $550 million revolving credit and term loan agreement with a group of banks which provided the financing required to complete Limerick Unit No. 1. The revolving credit arrangement converts into a term loan in August 1987. The borrowings are due in eight 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 1/2% on the unused amount. At December 31, 1985, $550 million was outstanding under this agreement.
The Company also has a $400 million revolving credit and term loan agreement with a group of banks which expires in 1987, but which may be extended through 1990 upon approval of the banks. There is an annual commitment fee of 3/8% on the unused amount. There were no borrowings under this agreement during the year.

(d) Long-term debt maturities in the period 1987-1990 are as follows:
1987-$187,844,000; 1988-$281,775,000; 1989-$241,850,000; 1990-$215,350,000.

(e) The annualized interest on long-term debt at December 31, 1985, was $455.7 million of which $309.3 million was associated with mortgage bonds and $146.4 million was associated with other long-term debt.

6. SHORT-TERM DEBT

	1985	1984	1983
	(Thousands of Dollars)		
Average Short-Term Borrowings	**$127,392**	$166,713	$164,429
Average Interest Rates, Computed on Daily Basis	**6.38%**	9.88%	9.06%
Maximum Short-Term Borrowings Outstanding	**$360,000**	$302,500	$340,000
Average Interest Rates on Short-Term Borrowings at December 31:			
Bank Loans	**9.50%**	9.95%	10.53%
Commercial Paper—Tax Exempt	—	—	5.61%
Commercial Paper—Taxable	—	—	10.64%
Pollution Control Notes	—	6.44%	—

At December 31, 1985, the Company had borrowed $1.0 million under formal and informal lines of credit with banks aggregating approximately $371 million. The Company generally does not have formal compensating balance arrangements with these banks.

7. RETIREMENT BENEFITS

The Company and its subsidiaries have noncontributory trusteed retirement plans applicable to all regular employees. Pension costs include normal cost for the year and amortization of unfunded prior service costs over ten to twenty years. Approximately 80% of such costs were charged to operating expenses and the remainder, associated with construction labor, to the cost of new utility plant. Retirement plan costs, which are funded as accrued, were $46,700,000, $42,000,000 and $41,000,000 in 1985, 1984 and 1983, respectively.

Pension Plan data as of the dates of the most recent actuarial valuations is as follows:

	January 1	
	1985	1984
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits (7.0% assumed rate of return)		
Vested	**$512,639**	$447,994
Nonvested	**60,990**	54,174
	$573,629	$502,168
Net assets available for benefits	**$645,726**	$573,372

Changes in plan provisions, effective January 1, 1985, increased the actuarial present value of accumulated plan benefits by approximately $16.3 million and increased pension expense by approximately $2.8 million. The actuarial methods and assumptions, as well as the accounting policy, are the same as those in the prior year.

The preceding tabular disclosures are required under applicable accounting principles. However, the Company is of the opinion that comparing the actuarial present value of accumulated plan benefits with the net assets available for benefits may be misleading. The plan is of a long-term nature and is funded on a basis consistent with this concept. The actuarial value of accumulated plan benefits is, essentially, a hypothetical plan termination calculation which does not take into account future salaries or future service. Net assets, which are measured at fair value at January 1, are subject to fluctuations in the securities markets and therefore, may not be indicative of the plan's long-term funded status.

In December, 1985, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 87 (FASB 87), *Employer's Accounting for Pensions*. FASB 87 supersedes existing accounting principles for defined benefit pension plans and becomes applicable to the Company in 1987. The Company has not fully evaluated FASB 87, but it believes it would not have a material negative impact on the financial statements.

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 may 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 on 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 benefits for approximately 2,400 retirees during the years 1983 to 1985 is not separable from the cost of providing benefits for approximately 10,000 active employees for the same period. Total premiums amounted to $29.3 million, $26.6 million, and $24.3 million, in 1985, 1984 and 1983, respectively.

8. INCOME TAXES

	1985	1984	1983
	(Thousands of Dollars)		
Included in operations:			
Federal			
Current	$106,994	$ 96,915	$ 54,495
Deferred	59,837	49,770	151,259
Investment tax credits, net	3,567	49,927	(46,064)
State			
Current	24,981	23,710	16,288
Deferred	6,444	26,427	24,048
Included in other income and deductions (principally current):			
Federal	(109,580)	(93,818)	(70,902)
State	(23,835)	(22,605)	(17,010)
Total	$ 68,408	$130,326	$112,114

Investment tax credits and income tax credits resulting from contributions to employee stock ownership plans reduced Federal income taxes currently payable by $12 million in 1985 and $58 million in 1984. Approximately $244 million of such additional tax credits generated from 1982 through 1985 have not been utilized due to limitations based on taxable income. These credits may be used to reduce Federal income taxes in future years and expire at various times from 1997 to 2000.

Effective with the PUC's electric rate order dated January 24, 1985, the Company began flowing through the state income tax benefits associated with accelerated depreciation attributable to its electric operations. This change reduced operating revenues and operating expenses by approximately $1.8 million but had no effect on operating income and net income.

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 recognized for rate-making. The cumulative net amount of such timing differences for which deferred taxes were not recorded was approximately $790 million at December 31, 1985. Since the Company expects to charge customers for taxes paid when the timing differences reverse, the tax effect of such timing differences is not recorded currently.

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

	1985	1984	1983
	(Thousands of Dollars)		
Depreciation and amortization	$ 34,417	$ 33,965	$ 38,792
Nuclear waste disposal costs	(5,932)	(7,355)	24,281
Deferred energy costs	(65,915)	41,212	119,867
Precommercial operation of Limerick Unit No. 1	97,867	—	—
Premium on retirement of long-term debt	24,731	—	—
Other	(18,887)	8,375	(7,633)
Total	$ 66,281	$ 76,197	$175,307

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

	1985	1984	1983
Net income	$525,301	$492,389	$389,089
Total income tax provisions	68,408	130,326	112,114
Income before income taxes	593,709	622,715	501,203
Deduct—allowance for funds used during construction (nontaxable)	433,491	354,855	275,994
Adjusted income before income taxes	$160,218	$267,860	$225,209
Income taxes on above at Federal statutory rate of 46%	73,700	123,215	103,596
Increase (decrease) due to:			
Depreciation timing differences not normalized	7,297	7,247	7,941
State income taxes, net of Federal income tax benefits	4,099	14,867	12,597
Amortization of investment tax credits previously deferred	(8,265)	(7,752)	(6,210)
Other, net	(8,423)	(7,251)	(5,810)
Total income tax provisions	$ 68,408	$130,326	$112,114
Provision for income taxes as a percent of:			
Income before income taxes	11.5%	20.9%	22.4%
Adjusted income before income taxes	42.7%	48.7%	49.8%

9. TAXES, OTHER THAN INCOME

	1985	1984	1983
	(Thousands of Dollars)		
Gross receipts	**$128,346**	$122,881	$108,211
Capital stock	**28,246**	13,240	19,198
Realty	**62,296**	48,030	30,975
Other	**22,636**	22,712	20,231
Total	**$241,524**	$206,863	$178,615

10. ESCROW DEPOSITS

Escrow deposits are stated at cost plus accrued interest, which approximates market, and consist of cash equivalent securities held in trusteed accounts which are restricted as to withdrawal pending the Company's incurring qualified costs. Below is a summary of such escrow deposits at December 31, 1985 and 1984.

	1985	1984
	(Thousands of Dollars)	
Pollution Control Facilities Under Construction	**$ 5,415**	$31,305
Other Facilities Under Construction	**7,886**	4,955
Nuclear Fuel Disposal	**—**	51,816
Total	**$13,301**	$88,076

11. INVESTMENTS

At December 31	1985	1984
	(Thousands of Dollars)	
Gas Exploration and Development Joint Ventures	**$44,743**	$46,406
Real Estate Developments and Other Ventures	**15,433**	12,120
Nonutility Property	**13,931**	13,441
Escrow Deposits for Decommissioning Nuclear Plants	**12,563**	7,792
Other Deposits	**1,000**	1,112
Total	**$87,670**	$80,871

12. LEASES

Leased property included in Utility Plant at December 31, 1985 and 1984:	1985	1984
	(Thousands of Dollars)	
Nuclear Fuel	**$445,699**	$424,721
Electric Plant	**48,342**	48,342
Common Plant	**3,116**	3,702
Gross Leased Property	**497,157**	476,765
Accumulated Amortization	**(159,016)**	(124,632)
Net Leased Property	**$338,141**	$352,133

The nuclear fuel obligation is amortized as the fuel is burned. Amortization of leased property totaled $60.9 million, $39.1 million, and $28.8 million in 1985, 1984 and 1983, respectively. Other operating expenses include interest on capital lease obligations of $18.2 million, $22.0 million, and $19.0 million in 1985, 1984 and 1983, respectively. Minimum future lease payments as of December 31, 1985, are:

Year Ending December 31	Capital Leases	Operating Leases	Total
		(Thousands of Dollars)	
1986	$103,780	$ 30,700	$134,480
1987	89,861	29,502	119,363
1988	91,072	26,917	117,989
1989	56,851	27,327	84,178
1990	45,790	26,483	72,273
Remaining Years	32,047	108,324	140,371
Total Minimum Future Lease Payments	419,401	$249,253	$668,654
Imputed Interest (rates ranging from 6.5% to 17%)	(81,260)		
Present Value of Net Minimum Future Lease Payments	$338,141		

Rental expense under operating leases totaled $43.9 million, $29.2 million, and $19.3 million, in 1985, 1984, and 1983, respectively.

13. SEGMENT INFORMATION

1985	Electric	Gas	Steam	Total
	(Thousands of Dollars)			
Operating revenues	$2,516,191	$428,984	$68,529	$ 3,013,704
Operating expenses, excluding depreciation	1,974,222	375,399	64,165	2,413,786
Depreciation	168,208	14,841	1,916	184,965
Total operating expenses	2,142,430	390,240	66,081	2,598,751
Operating income	$ 373,761	$ 38,744	$ 2,448	$ 414,953
Utility plant additions	$ 793,195	$ 32,896	$ 518	$ 826,609
December 31:				
Allocable assets				
Net utility plant (*)	8,675,701	389,396	20,876	9,085,973
Inventories	100,793	22,745	208	123,746
Deferred energy costs	109,244	(4,766)	(2,823)	101,655
	$8,885,738	$407,375	$18,261	$ 9,311,374
Nonallocable assets				853,940
Total assets				$10,165,314

1984	Electric	Gas	Steam	Total
Operating revenues	$2,435,731	$462,966	$82,320	$ 2,981,017
Operating expenses, excluding depreciation	1,858,505	413,938	75,989	2,348,432
Depreciation	162,959	13,474	1,893	178,326
Total operating expenses	2,021,464	427,412	77,882	2,526,758
Operating income	$ 414,267	$ 35,554	$ 4,438	$ 454,259
Utility plant additions	$1,022,496	$ 30,613	$ 135	$ 1,053,244
December 31:				
Allocable assets				
Net utility plant (*)	8,068,233	369,239	22,443	8,459,915
Inventories	116,775	32,572	1,189	150,536
Deferred energy costs	227,524	4,147	(1,776)	229,895
	$8,412,532	$405,958	$21,856	$ 8,840,346
Nonallocable assets				715,383
Total assets				$ 9,555,729

1983	Electric	Gas	Steam	Total
Operating revenues	$2,107,897	$417,042	$71,111	$ 2,596,050
Operating expenses, excluding depreciation	1,592,027	377,624	67,365	2,037,016
Depreciation	150,898	12,694	1,735	165,327
Total operating expenses	1,742,925	390,318	69,100	2,202,343
Operating income	$ 364,972	$ 26,724	$ 2,011	$ 393,707
Utility plant additions	$1,004,219	$ 26,020	$ 82	$ 1,030,321
December 31:				
Allocable assets				
Net utility plant (*)	7,257,594	353,979	24,599	7,636,172
Inventories	98,391	32,350	343	131,084
Deferred energy costs	116,661	29,359	3,226	149,246
	$7,472,646	$415,688	$28,168	$ 7,916,502
Nonallocable assets				627,962
Total assets				$ 8,544,464

(*) Includes construction work in progress, leased property and allocated common utility property.

The Company is considering a proposal for the sale of its steam operation. Ultimate sale of the steam operation is subject to many factors, including acceptance of the proposal by the Company's management and Board of Directors and approval of the sale by the PUC. The Company estimates that a sale of the steam operation would result in no significant gain or loss.

14. LIMERICK GENERATING STATION

The Company's Limerick Unit No. 1 commenced commercial operation on February 1, 1986. Construction of the second of the two nuclear units at Limerick resumed in February 1986, following a suspension of approximately 2 years. Unit No. 2 is scheduled to be completed in late 1990. As of December 31, 1985, the Company had invested approximately $4.61 billion in the Limerick Generating Station, consisting of $2.48 billion in Unit No. 1, $901 million in Unit No. 2 and $1.23 billion in common facilities.

On September 27, 1985, the Company filed with the PUC for an electric rate increase designed to yield $671 million annually, net of fuel savings. The increase, designed to recover the costs associated with Limerick Unit No. 1 and 100 percent of common plant was requested to become effective November 27, 1985. On November 1, 1985, the PUC issued an order which suspended the effective date of the increase until June 27, 1986, pending hearings and investigation into the reasonableness of the requested increase. In order to lessen the impact of the increase on customers, the Company has proposed to phase in the increase in three equal steps over three years and to collect from customers the amounts unrecovered by the phase-in plan, without interest, after the last step is effective. In addition, the Company has announced that it does not intend to file for another electric base rate increase prior to September 27, 1987, unless, in the Company's judgment, a failure to file such a request would jeopardize its financial viability. In the past, the PUC's practice has been to include in any rate increase with respect to one unit of a two-unit generating station only one-half of the costs of the common facilities. On January 21, 1986, the PUC entered an order stating that the prudence of the Company's 1976 and 1978 construction deferral announcements would not be examined in the rate proceeding, because a finding of imprudence had allegedly been issued in an earlier PUC proceeding. The Company intends to appeal this decision to the Commonwealth Court of Pennsylvania. As a result of these construction deferral announcements, the PUC staff and the Office of Consumer Advocate contend that certain amounts of construction costs should be excluded from rate base. The Company maintains, however, that the 1976 and 1978 construction deferrals were prudent and that rate base should not be reduced.

The unavailability of sufficient supplemental cooling water would limit or prohibit operation of Limerick during certain months of the year. Until the planned supplemental cooling water system is completed and in operation, the Company must obtain interim supplemental cooling water for the operation of Limerick during such months. The Delaware River Basin Commission (DRBC) approved, for a portion of 1985, two Company requests for modification of restrictions on the use of the Schuylkill River for Limerick cooling water and for a reallocation of cooling water to Limerick from two other power plants on the Schuylkill River. The DRBC's approvals were effective through December 31, 1985. The Company filed one similar modification request and the same reallocation request with the DRBC for its 1986 supplemental cooling water needs. If only the request for reallocation were granted, supplemental cooling water is expected to be available to permit Unit No. 1 to operate at approximately 25 percent of its capacity. Based on historic river conditions, even if both the modification request and the reallocation request were granted, it is unlikely that there would be sufficient water to operate Unit No. 1 at 100 percent capacity throughout the year. Therefore, the Company is investigating other possible sources of supplemental cooling water for 1986, all of which would require regulatory approval.

One component of the supplemental cooling water system for Limerick is the Point Pleasant project to be constructed and operated by Bucks County and by the Neshaminy Water Resources Authority (NWRA), a municipal authority created by Bucks County, under a contract among NWRA, the Company and Bucks County. The Point Pleasant project has been the subject of substantial opposition from various groups, including a majority of the Commissioners of Bucks County and a majority of the members of the Board of Directors of NWRA. This opposition has resulted in disruption of construction and in litigation. During 1985, the Court of Common Pleas of Bucks County ordered completion of the Point Pleasant project, this decision was affirmed by the Commonwealth Court, and NWRA and Bucks County petitioned the Supreme Court of Pennsylvania for an allowance of an appeal from the decision of the Commonwealth Court. The Supreme Court of Pennsylvania has not yet acted on the petition.

Following a lengthy investigation, on December 5, 1985 the PUC determined that the Company could complete construction of Unit No. 2 subject to a cost containment and operational incentive program ("Program"). The Company agreed to the Program on December 23, 1985. Principal elements of the Program are a construction cost cap of $3.2 billion, which would represent the maximum allowed rate base for Unit No. 2 throughout its lifetime; an operating performance incentive/penalty related to the unit's capacity factor; and operating and maintenance expense standards. The construction cost cap of $3.2 billion includes AFUDC, but does not include any costs related to common plant. The cost cap includes capital additions after commercial operation, net of accumulated depreciation. Any expenditures in excess of $3.2 billion cannot be recovered from ratepayers or included in rate base. Adjustment of the cap for inflation, regulatory scope changes, or any other factors is not permitted. The estimated total cost of Unit No. 2 does not exceed the cost cap.

In 1984 the Commonwealth of Pennsylvania enacted a law which requires the PUC to compare the actual cost of construction of an electric generating facility with the estimate submitted at the commencement of construction. The law provides that if the actual cost exceeds the estimated cost, the PUC must exclude the excess cost from the utility's rate base unless the utility can show that some or all of the excess cost was necessary and proper. in 1974 the original estimated cost of construction of the Limerick Generating Station was in the range of $1.7 to $2 billion. Estimates at earlier stuges were significantly lower but the Company does not believe that such earlier estimates are applicable to determine the excess cost applicable under the law.

On December 19, 1985, the Financial Accounting Standards Board issued an exposure draft of a proposed amendment to the accounting principles applicable to rate regulated enterprises, such as the Company. The proposed amendment, if adopted in its present form, would become applicable to the Company in 1987 and would affect, principally, accounting for phase-in plans and disallowances of plant costs. In general, this amendment would accelerate the timing of recognition of expenses in the Company's financial statements. Under the exposure draft, allowable costs could be deferred in connection with a phase-in plan only if the regulatory authority agreed to the plan and all amounts deferred were recovered within ten years; otherwise, no deferrals would be allowed. If the PUC disallowed a portion of Limerick's construction costs through either a reduction in rate base or rate of return, or if the Company estimated that the total construction costs of Unit No. 2 would exceed the cost cap, an immediate write-off of portions of Limerick's construction costs would be required. Such a write-off could be material to results of operations or retained earnings of the Company in the year of write-off and could affect the Company's ability to pay dividends and to finance its construction program. Under existing accounting principles, it is unlikely that the aforementioned circumstances would cause the Company to write off immediately any amounts of Limerick's construction costs.

15. COMMITMENTS AND CONTINGENCIES

The Company has incurred substantial commitments in connection with its construction program. Construction expenditures are estimated to be $771 million for 1986 and $2.9 billion for 1987 through 1989. These estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Plant facilities under construction, particularly the Limerick Generating Station, require numerous permits and licenses, which the Company cannot be assured will be issued at completion of the facilities.

The Price-Anderson Act places a "Limit of Liability" presently of $650 million, for claims that could arise from an incident involving any licensed nuclear facility in the nation. All nuclear utilities, including the Company, have covered this exposure through a combination of private insurance and mandatory participation in a secondary financial protection pool. In the event of such a nuclear incident at any licensed nuclear facility in the nation, the Company could be assessed up to $13.5 million per incident, with a maximum amount of $27 million in any one year.

The Company maintains property insurance, including radiation contamination coverage, for loss or damage to its nuclear facilities. Although it is impossible 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, $1.1 billion for each station. Under the terms of the various insurance agreements, the Company could be assessed up to $35 million for losses incurred at any plants insured by the insurance companies. 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 $13 million.

The PUC has conducted several investigations involving the Company's management of major plant outages during 1983 and 1984 and the resulting impact on energy costs recoverable from customers under the electric energy cost rate. On October 24, 1985, the PUC issued its final order in an investigation which addressed the prudency of outages of certain base load nuclear and coal units during 1983 and 1984. As a result of this order, the Company was denied recovery of approximately $73 million of energy costs. The disallowed energy costs were charged to expense as of September 30, 1985, and reduced operating income and earnings applicable to common stock by $34.7 million and earnings per average common share by approximately 20¢. On November 26, 1985 the Company filed a Petition for Review with Commonwealth Court appealing the PUC order.

The PUC is holding hearings in connection with $47 million of replacement energy costs related to other outages of nuclear units during 1984 and 1985. The Company believes its management of those outages was prudent and that it should not be precluded from recovering the replacement energy costs. Ultimate resolution of this matter will not have a material adverse effect on the results of operations or financial position of the Company. A final decision by the PUC is not expected until mid 1986.

On October 9, 1985, a law was enacted in Pennsylvania granting the PUC statutory authority to modify or halt construction of any generating unit if the PUC determines that such construction is not in the public interest. The law provides that a utility may recover a return of, but not a return on, prudently incurred costs of any partially completed facility, the cancellation of which is found to be in the public interest.

The Company is a nominal defendent in a class action and derivative suit against certain of its directors and officers, brought by four shareholders owning in the aggregate 202 shares of common stock. The suit arises out of the construction of the Limerick Generating Station and seeks to cause Unit No. 2 to be abandoned, its cost to be written off as a loss, dividends on common stock to be terminated until certain earnings levels have been met, and the shares authorized under the 1983 Amendment to the Articles of Incorporation to be declared invalid. Additional damages also are sought. While the outcome of litigation cannot be predicted with certainty, management believes resolution of the suit will not have a material affect on the Company's financial position. The defendants have filed a motion to dismiss the complaint.

16. QUARTERLY DATA (Unaudited)

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

	Operating Revenues		Operating Income		Net Income	
Quarter Ended	**1985**	1984	**1985**	1984	**1985**	1984
	(Thousands of Dollars)					
March 31	**$852,299**	$818,031	**$126,892**	$128,942	**$151,166**	$134,838
June 30	**683,519**	703,219	**98,153**	100,680	**118,859**	108,151
September 30	**750,904**	755,619	**93,240**	121,524	**124,163**	132,339
December 31	**726,982**	704,148	**96,668**	103,113	**131,113**	117,061

	Earnings Applicable to Common Stock		Average Shares Outstanding		Earnings Per Average Share	
Quarter Ended	**1985**	1984	**1985**	1984	**1985**	1984
	(Thousands of Dollars)		(Thousands)		(Dollars)	
March 31	**$128,422**	$115,451	**162,859**	143,044	**$.79**	$.81
June 30	**96,212**	87,098	**168,723**	150,266	**.57**	.58
September 30	**101,569**	111,340	**171,993**	153,519	**.59**	.73
December 31	**108,521**	95,818	**175,401**	160,274	**.62**	.60

1985 third quarter results include a charge of approximately $34.7 million (net of related income taxes) resulting from the PUC's denial of recovery of approximately $73.0 million of energy costs (see Note #15).

17. SUPPLEMENTARY INFORMATION TO DISCLOSE THE ESTIMATED EFFECTS OF INFLATION FOR THE YEAR ENDED DECEMBER 31, 1985 (Unaudited)

The following supplementary information is supplied to show the estimated effects of inflation under the "current cost" method. The techniques required to develop this information are approximate and complex, and may not necessarily reflect the true effects of inflation on the Company. Under existing regulatory law, the Company is permitted to recover actual operating and capital costs incurred to serve customers and a reasonable return on investment, and the Company believes it will be allowed to recover cost increases caused by inflation as such increases are actually incurred.

Effect of Inflation on Reported Income. In adjusting the Consolidated Statements of Income, as shown below, only depreciation expense was adjusted for the effect of inflation. Depreciation expense was determined by applying the Company's depreciation rates to restated 1985 average depreciable plant in service. Other Operating Expenses were not required to be adjusted.

If the Company had to replace its entire utility plant at this time, the costs to do so would greatly exceed the original costs incurred when the facilities were built because of the cumulative effect of inflation. These plant replacement costs, net of accumulated depreciation, are estimated at $14.2 billion. The effect ($496 million) of general inflation in 1985 on net utility plant was greater than the increase ($456 million) in specific prices by $40 million.

Consolidated Statements of Income Adjusted for Inflation for the Year Ended December 31, 1985

	As Reported	As Adjusted (Average 1985 Dollars)
	(Thousands of Dollars, except per share amounts)	
Operating Revenues	$3,013,704	$3,013,704
Depreciation	184,965	477,987
Other Operating Expenses	2,413,786	2,413,786
Operating Income	414,953	121,931
Other Income	306,261	306,261
Income Before Interest Charges and Preferred Stock Dividends	721,214	428,192
Interest Charges and Preferred Stock Dividends	286,490	286,490
Earnings Applicable to Common Stock	$ 434,724	$ 141,702
Earnings Per Average Share	$ 2.56	$ 0.83

Adjustment of Selected Five Year Financial Information.
In order to reflect the impact of general inflation on selected financial information for each of the years 1981 through 1985, the following table shows actual data compared with data adjusted to 1985 dollars.

Five Year Summary of Selected Financial Information and Current Cost Data
(Thousands of Dollars, except per share amounts)

	1985	1984	1983	1982	1981
Development of Adjustment Factors					
Consumer Price Index					
Average During Year	**322.2**	311.1	298.4	289.1	272.4
Year End	**327.4**	315.5	303.5	292.4	281.5
Consumer Price Index Multiplier					
A = Average (322.2 ÷ Index)	**1.00**	1.04	1.08	1.11	1.18
B = Year End (327.4 ÷ Index)	**1.00**	1.04	1.08	1.12	1.16
Actual and Adjusted Historical Financial Information					
Dividends Per Common Share					
Actual Paid	**$2.20**	$2.20	$2.12	$2.06	$1.90
Adjusted (Actual x A)	**$2.20**	$2.29	$2.29	$2.29	$2.24
Market Price Per Common Share					
Actual Year End	**$17.38**	$14.87	$14.38	$17.00	$13.63
Adjusted (Actual x B)	**$17.38**	$15.46	$15.53	$19.04	$15.81
Operating Revenues					
Actual	**$3,013,704**	$2,981,017	$2,596,050	$2,644,753	$2,433,425
Adjusted (Actual x A)	**$3,013,704**	$3,100,258	$2,803,734	$2,935,676	$2,871,442
Earnings Applicable to Common Stock					
Actual	**$434,724**	$409,707	$321,705	$278,623	$223,761
Adjusted (Actual × A)	**$434,724**	$426,095	$347,441	$309,272	$264,038
Earnings per Average Common Share					
Actual	**$2.56**	$2.70	$2.40	$2.39	$2.25
Adjusted (Actual × A)	**$2.56**	$2.81	$2.59	$2.65	$2.66
Common Shareholders' Equity					
Actual Year End	**$3,193,048**	$2,890,975	$2,569,323	$2,254,435	$1,963,527
Adjusted (Actual x B)	**$3,193,048**	$3,006,614	$2,774,869	$2,524,967	$2,277,691
Current Cost Data					
Excess of Increase in General Inflation over Increase in Specific Prices on Utility Plant Cost					
Actual Current Cost	**$39,973**	$296,690	$147,379	$(9,011)	$186,585
Adjusted (Actual x A)	**$39,973**	$308,558	$159,169	$(10,002)	$220,170
Purchasing Power Gain on Net Amounts Owed					
Actual Current Cost	**$199,010**	$190,521	$165,235	$148,672	$307,972
Adjusted (Actual x A)	**$199,010**	$198,142	$178,454	$165,026	$363,407
Earnings Applicable to Common Stock					
Actual Current Cost	**$141,702**	$113,662	$51,049	$48,471	$23,044
Adjusted (Actual x A)	**$141,702**	$118,208	$55,133	$53,803	$27,192
Earnings per Average Common Share					
Actual Current Cost	**$0.83**	$0.75	$0.38	$0.42	$0.23
Adjusted (Actual x A)	**$0.83**	$0.78	$0.41	$0.47	$0.27

Financial Statistics

SUMMARY OF EARNINGS (Millions of Dollars)							
For the Year Ended	**1985**	1984	1983	1982	1981	1980	1975
Operating Revenues (for details see pages 42 and 43)	**$3,013.7**	$2,981.0	$2,596.0	$2,644.8	$2,433.4	$2,123.4	$1,134.8
Operating Expenses							
Fuel and Energy Interchange	**1,139.6**	1,122.2	986.6	1,128.5	1,187.6	1,090.5	457.8
Labor	**370.8**	345.3	317.2	291.1	256.8	232.1	152.2
Other Materials, Supplies and Services	**460.0**	427.3	354.6	320.5	260.9	184.5	72.6
Total Operation and Maintenance	**1,970.4**	1,894.8	1,658.4	1,740.1	1,705.3	1,507.1	682.6
Depreciation	**185.0**	178.3	165.3	143.8	130.3	122.9	91.2
Taxes	**443.3**	453.6	378.6	372.2	274.8	227.4	163.9
Total Operating Expenses	**2,598.7**	2,526.7	2,202.3	2,256.1	2,110.4	1,857.4	937.7
Operating Income	**415.0**	454.3	393.7	388.7	323.0	266.0	197.1
Other Income							
Allowance for Other Funds Used During Construction	**176.3**	134.5	108.1	65.7	65.0	50.5	23.3
Income Tax Credits, Net	**133.4**	116.4	87.9	75.8	63.2	49.0	22.3
Other, Net	**(3.5)**	.2	(3.1)	(0.7)	2.5	3.4	2.0
Total Other Income	**306.2**	251.1	192.9	140.8	130.7	102.9	47.6
Income Before Interest Charges	**721.2**	705.4	586.6	529.5	453.7	368.9	244.7
Interest Charges							
Long-Term Debt	**435.4**	402.5	330.2	308.9	266.7	225.0	136.5
Short-Term Debt	**17.7**	30.9	35.2	32.0	33.2	13.9	7.9
Allowance for Borrowed Funds Used During Construction	**(257.2)**	(220.4)	(167.9)	(147.6)	(123.8)	(97.1)	(43.6)
Net Interest Charges	**195.9**	213.0	197.5	193.3	176.1	141.8	100.8
Net Income	**525.3**	492.4	389.1	336.2	277.6	227.1	143.9
Preferred Stock Dividends	**90.6**	82.7	67.4	57.6	53.8	52.2	36.0
Earnings Applicable to Common Stock	**434.7**	409.7	321.7	278.6	223.8	174.9	107.9
Dividends on Common Stock	**373.5**	334.3	283.6	240.5	189.5	157.4	95.4
Earnings Retained	**$61.2**	$75.4	$38.1	$38.1	$34.3	$17.5	$12.5
Earnings Per Average Common Share (Dollars)	**$2.56**	$2.70	$2.40	$2.39	$2.25	$2.00	$1.86
Dividends per Common Share (Dollars)	**$2.20**	$2.20	$2.12	$2.06	$1.90	$1.80	$1.64
Common Stock Equity (Per Share)	**$17.97**	$17.81	$17.99	$17.93	$18.10	$18.72	$19.05
Average Shares of Common Stock Outstanding (Millions)	**169.8**	151.8	133.9	116.5	99.6	87.3	58.1

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.	9	3/80	10	3/80	11	2/83
Fitch Investors Service	BBB	9/82	BBB–	9/82	BB+	9/82
Moody's Investors Service	Baa3	1/83	Ba1	1/83	ba1	1/83
Standard & Poor's Corporation	BBB–	9/82	BB+	9/82	BB	9/82

SUMMARY OF FINANCIAL CONDITION (Millions of Dollars)

December 31	**1985**	1984	1983	1982	1981	1980	1975
Assets							
Utility Plant, at original cost	**$10,572.2**	$9,834.1	$8,864.2	$7,905.7	$7,044.7	$6,415.7	$4,445.6
Less: Accumulated Depreciation	**1,824.4**	1,726.3	1,592.0	1,450.1	1,330.6	1,235.7	775.8
Leased Property, net	**338.1**	352.1	364.0	299.1	270.0	139.3	91.0
Net Utility Plant	**9,085.9**	8,459.9	7,636.2	6,754.7	5,984.1	5,319.3	3,760.8
Investments	**87.7**	80.9	99.4	91.4	77.8	58.7	12.3
Current Assets							
Cash and Temporary Cash Investments	**188.8**	30.4	57.2	50.0	30.7	6.7	17.4
Escrow Deposits	**13.3**	88.1	8.0	—	—	—	—
Accounts Receivable	**370.9**	384.2	338.6	342.2	342.4	300.3	139.8
Inventories	**123.7**	150.5	131.1	143.0	132.2	121.1	88.0
Deferred Energy Costs	**101.7**	229.9	149.3	(85.4)	(31.3)	11.0	17.9
Other	**58.5**	48.9	44.3	40.2	35.1	31.8	19.2
Deferred Debits	**134.8**	82.9	80.4	24.9	31.5	18.5	13.8
Total	**$10,165.3**	$9,555.7	$8,544.5	$7,361.0	$6,602.5	$5,867.4	$4,069.2
Capitalization and Liabilities							
Common Stock	**$ 2,602.0**	$2,361.0	$2,110.5	$1,826.2	$1,572.4	$1,377.4	$ 916.6
Other Paid-In Capital	**7.3**	6.7	5.9	4.6	3.9	2.6	1.5
Retained Earnings	**583.7**	523.3	452.9	423.6	387.2	353.6	304.7
Common Shareholders' Equity	**3,193.0**	2,891.0	2,569.3	2,254.4	1,963.5	1,733.6	1,222.8
Preferred Stock							
Without Mandatory Redemption	**572.5**	572.5	522.5	372.5	372.5	372.5	372.5
With Mandatory Redemption	**318.3**	326.2	284.9	292.3	266.9	274.3	113.4
Long-Term Debt	**4,309.2**	3,778.0	3,381.8	3,028.5	2,745.7	2,371.9	1,776.9
Total Capitalization	**8,393.0**	7,567.7	6,758.5	5,947.7	5,348.6	4,752.3	3,485.6
Current Liabilities							
Short-Term Debt	**1.0**	260.0	267.5	64.7	54.2	52.6	108.0
Current Maturities of Long-Term Debt	**80.8**	50.4	—	21.3	36.1	130.8	60.9
Capital Lease Obligations due within one year	**76.3**	68.3	61.5	32.5	53.9	18.5	12.4
Accounts Payable and Dividends Declared	**185.1**	200.1	179.9	188.5	188.9	187.6	80.1
Taxes Accrued and Deferred	**110.3**	158.0	102.3	22.6	51.4	77.8	44.2
Interest Accrued	**93.0**	91.1	91.8	99.8	82.3	64.9	37.8
Other	**72.0**	127.2	54.1	24.7	18.1	17.4	20.2
Deferred Credits and Other Liabilities							
Capital Lease Obligations	**261.8**	283.8	302.5	266.6	216.1	120.8	78.6
Other	**892.0**	749.1	726.4	692.6	552.9	444.7	141.4
Total	**$10,165.3**	$9,555.7	$8,544.5	$7,361.0	$6,602.5	$5,867.4	$4,069.2

Operating Statistics

ELECTRIC OPERATIONS

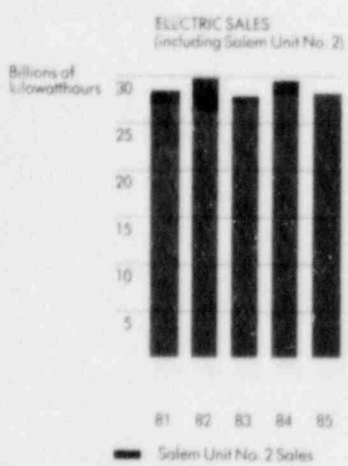
	1985	1984	1983	1982	1981	1980	1975
Output (Millions of Kilowatthours)							
Steam	**9,455**	11,085	10,457	8,598	9,931	11,234	12,814
Nuclear	**8,359**	6,462	5,520	10,743	7,464	7,333	4,387
Hydraulic	**1,484**	2,085	1,739	1,581	1,397	1,240	2,275
Pumped Storage Output	**1,235**	1,100	979	1,126	1,101	1,050	1,275
Pumped Storage Input	**(1,754)**	(1,579)	(1,427)	(1,665)	(1,624)	(1,526)	(1,785)
Purchase and Net Interchange	**10,252**	11,975	12,181	11,120	11,173	9,973	7,363
Internal Combustion	**178**	425	491	178	283	442	914
Other	**1,254**	—	—	—	528	—	—
Total Electric Output	**30,463**	31,553	29,940	31,681	30,253	29,746	27,243
Sales (Millions of Kilowatthours)							
Residential	**8,440**	8,515	8,467	7,877	8,014	8,341	7,424
Small Commercial and Industrial	**3,731**	3,543	3,284	3,142	3,115	3,065	2,624
Large Commercial and Industrial	**14,920**	14,881	14,478	14,178	14,916	15,056	14,060
All Other	**1,044**	1,061	1,003	1,012	1,005	1,159	1,227
Service Territory	**28,135**	28,000	27,232	26,209	27,050	27,621	25,335
Jersey Central Power & Light (Salem #2)	**—**	1,395	346	3,352	1,218	—	—
Total Electric Sales	**28,135**	29,395	27,578	29,561	28,268	27,621	25,335
Number of Customers, December 31							
Residential	**1,245,481**	1,230,883	1,217,635	1,206,944	1,200,238	1,190,312	1,120,981
Small Commercial and Industrial	**124,719**	121,676	119,292	118,407	117,016	116,808	114,896
Large Commercial and Industrial	**4,881**	5,100	5,437	5,616	5,790	5,820	5,719
All Other	**773**	751	751	762	746	736	2,305
Total Electric Customers	**1,375,854**	1,358,410	1,343,115	1,331,729	1,323,790	1,313,676	1,243,901
Operating Revenues (Millions of Dollars)							
Residential	**$923.9**	$854.9	$744.0	$694.4	$643.7	$607.8	$364.7
Small Commercial and Industrial	**388.7**	360.2	316.6	310.6	285.9	249.8	138.9
Large Commercial and Industrial	**1,061.8**	1,008.5	877.4	922.3	917.1	813.9	418.3
All Other	**141.8**	145.1	139.4	118.3	109.5	95.4	56.5
Service Territory	**2,516.2**	2,368.7	2,077.4	2,045.6	1,956.2	1,766.9	978.4
Jersey Central Power & Light (Salem #2)	**—**	67.0	30.5	135.4	45.9	—	—
Total Electric Revenues	**$2,516.2**	$2,435.7	$2,107.9	$2,181.0	$2,002.1	$1,766.9	$978.4
Operating Expenses (Millions of Dollars)							
Operating expenses excluding depreciation	**$1,974.2**	$1,858.5	$1,592.0	$1,688.4	$1,586.5	$1,414.0	$717.6
Depreciation	**168.2**	163.0	150.9	130.2	117.3	111.1	81.6
Total Operating Expenses	**$2,142.4**	$2,021.5	$1,742.9	$1,818.6	$1,703.8	$1,525.1	$799.2
Electric Operating Income (Millions of Dollars)	**$373.8**	$414.2	$365.0	$362.4	$298.3	$241.8	$179.2
Average Use per Residential Customer (kilowatthours)							
Without Electric Heating	**6,034**	6,160	6,319	5,875	6,022	6,411	6,354
With Electric Heating	**15,923**	17,293	16,523	16,813	18,054	19,482	18,916
Total	**6,820**	6,960	6,990	6,544	6,699	7,058	6,645
Electric Peak Load, Demand (thousands of kws)	**6,034**	5,925	5,879	5,691	5,731	6,095	5,530
Net Electric Generating Capacity—Year End Summer rating (thousands of kws)	**7,599**	7,765	7,974	8,006	8,006	7,698	7,186
Cost of Fuel per Million Btu	**$1.72**	$2.22	$2.25	$1.57	$2.10	$1.90	$1.23
Btu per Net Kilowatthour Generated	**10,843**	10,920	10,906	10,918	10,930	10,787	10,523

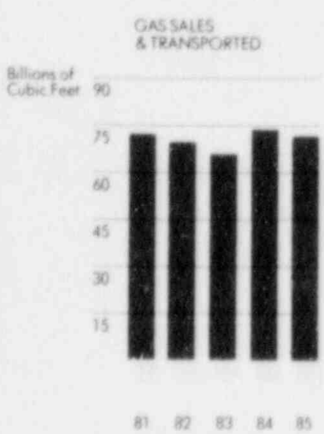
GAS OPERATIONS

	1985	1984	1983	1982	1981	1980	1975
Sales (Millions of Cubic Feet)							
Residential	**1,810**	1,941	2,168	2,442	2,446	2,461	2,334
House Heating	**23,227**	25,429	22,981	24,237	24,675	23,671	20,817
Commercial and Industrial	**36,254**	41,145	39,043	41,660	45,670	42,890	30,012
All Other	**1,209**	1,282	672	422	127	92	74
Total Gas Sales	**62,500**	69,797	64,864	68,761	72,918	69,114	53,237
Gas Transported for Customers	**10,262**	3,794	789	—	—	—	—
Total Gas Sales & Transported	**72,762**	73,591	65,653	68,761	72,918	69,114	53,237
Number of Customers, December 31							
Residential	**69,632**	70,794	72,501	76,638	78,426	81,346	90,117
House Heating	**217,840**	211,984	206,443	198,910	193,038	182,246	162,914
Commercial and Industrial	**24,234**	23,442	22,810	22,324	21,578	20,197	19,874
Total Gas Customers	**311,706**	306,220	301,754	297,872	293,042	283,789	272,905
Operating Revenues (Millions of Dollars)							
Residential	**$18.7**	$19.0	$19.1	$18.1	$15.4	$14.0	$8.1
House Heating	**185.4**	191.7	165.8	147.1	128.5	108.5	54.8
Commercial and Industrial	**214.1**	243.7	227.3	221.1	209.7	166.7	54.5
All Other	**5.2**	5.6	3.0	1.8	0.5	0.3	0.1
Subtotal	**$423.4**	$460.0	$415.2	$388.1	$354.1	$289.5	$117.5
Other Revenues (including Transported for Customers)	**5.5**	3.0	1.8	2.3	2.3	1.2	0.5
Total Gas Revenues	**$428.9**	$463.0	$417.0	$390.4	$356.4	$290.7	$118.0
Operating Expenses (Millions of Dollars)							
Operating expenses excluding depreciation	**$375.4**	$413.9	$377.6	$354.1	$322.0	$258.0	$93.7
Depreciation	**14.8**	13.5	12.7	11.9	11.3	10.2	8.3
Total Operating Expenses	**$390.2**	$427.4	$390.3	$366.0	$333.3	$268.2	$102.0
Gas Operating Income (Millions of Dollars)	**$38.7**	$35.6	$26.7	$24.4	$23.1	$22.5	$16.0

STEAM OPERATIONS

	1985	1984	1983	1982	1981	1980	1975
Sales (Millions of Pounds)	**4,229**	4,735	4,552	5,086	5,484	6,044	7,117
Number of Customers, December 31	**487**	540	545	571	593	618	689
Operating Revenues (Millions of Dollars)	**$68.5**	$82.3	$71.1	$73.4	$74.9	$65.8	$38.5
Operating Expenses (Millions of Dollars)							
Operating expenses excluding depreciation	**$64.2**	$76.0	$67.4	$69.8	$71.6	$62.4	$35.3
Depreciation	**1.9**	1.9	1.7	1.7	1.7	1.7	1.4
Total Operating Expenses	**$66.1**	$77.9	$69.1	$71.5	$73.3	$64.1	$36.7
Steam Operating Income (Millions of Dollars)	**$2.4**	$4.4	$2.0	$1.9	$1.6	$1.7	$1.8





Shareholder Information

Stock Exchange Listings

Most PE 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 4% of the $2.20 per share dividend paid to common shareholders in 1985 represents a return of capital which is not taxable as dividend income for Federal income tax purposes. All dividends on preferred stock are taxable.

Dividend Reinvestment and Stock Purchase Plan

Shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan. Philadelphia Electric pays all brokerage and service fees.

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 fees borne by the Company.

Over 35% of the Company's common shareholders were participants. In 1985, they invested more that $110 million through the Plan, including cash payments. Information concerning this Plan may be obtained from M.W. Rimerman, Treasurer, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Comments Welcomed

The Company always is 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 accounting records, stock transfer and change of address should be directed to Philadelphia Electric Company,
2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101,
Attn: Stock Transfer Section, S6-4.

Toll-Free Telephone Line

Toll-free telephone lines are available to the Company's shareholders for inquiries concerning their stock ownership. When calling from outside Pennsylvania, dial 1-800-223-7326. From within Pennsylvania dial 1-800-242-7326. Local Philadelphia calls should be made to 841-5795.

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held on April 9, 1986, at 10:30 A.M. at the Adams Mark Hotel, Monument Road & City Line Avenue, Philadelphia, PA. Common stock shareholders of record at the close of business on February 28, 1986, are entitled to vote at this meeting.

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 302,097 shareholders of record of common stock, a 13% increase in 5 years.

Transfer Agents and Registrars

PHILADELPHIA ELECTRIC COMPANY—
Preferred and Common Stocks

Registrars:	Mellon Bank (East) N.A., Four Mellon Bank Center, Philadelphia, PA 19102 Morgan Guaranty Trust Co. of NY, 30 W. Broadway, NY, NY 10015
Transfer Agents:	Philadelphia Electric Company, 2301 Market St., Phila., PA 19101 Morgan Guaranty Trust Co. of NY, 30 W. Broadway, NY, NY 10015

PHILADELPHIA ELECTRIC COMPANY—
First and Refunding Mortgage Bonds

Trustee:	Fidelity Bank, National Association, 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:	The Philadelphia National Bank, Broad & Chestnut Sts., Phila., PA 19101
New York Agent:	Irving Trust Co., One Wall Street, NY, NY 10015

General Office

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

NYSE—Composite Common Stock Prices, Earnings and Dividends by Quarters (Per Share)

	1985				1984			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	$17⅞	$16⅝	$16⅛	$16⅞	$15⅞	$13½	$14⅜	$16
Low Price	$14	$14	$13⅞	$14½	$12⅞	$ 9	$11⅞	$14
Earnings	62¢	59¢	57¢	79¢	60¢	73¢	58¢	81¢
Dividends	55¢	55¢	55¢	55¢	55¢	55¢	55¢	55¢

Directors

*John H. Austin, Jr.
President and Chief Operating Officer of the Company

William T. Coleman, Jr., Esq.
Senior Partner of the law firm of O'Melveny & Myers

M. Walter D'Alessio
President and Chief Executive Officer Latimer & Buck, Inc. (Mortgage Banking and Real Estate Development)

*James L. Everett
Chairman of the Board and Chief Executive Officer of the Company

William S. Fishman
Chairman of the Executive Committee ARA Services, Inc. (Service Management)

William S. Gaither
President
Drexel University

*Robert F. Gilkeson
Chairman of the Executive Committee of the Company

Richard G. Gilmore
Consultant

*Robert D. Harrison
Vice Chairman
John Wanamaker, Philadelphia (Merchandising)

Paul R. Kaiser
Chairman Emeritus
Tasty Baking Company (Diversified Manufacturing)

*Joseph C. Ladd
Chairman and Chief Executive Officer
Fidelity Mutual Life Insurance Company

Edithe J. Levit, M.D.
President and Chief Executive Officer
National Board of Medical Examiners

*Joseph J. McLaughlin
President and Chief Executive Officer
Beneficial Mutual Savings Bank

**Member of the Executive Committee*

Officers

James L. Everett
Chairman of the Board and Chief Executive Officer

John H. Austin, Jr.
President and Chief Operating Officer

Vincent S. Boyer
Senior Vice President
Nuclear Power

Edward G. Bauer, Jr.
Vice President and General Counsel

Clifford Brenner
Vice President
Corporate Communications

Thomas W. Coppock
Vice President
Electric Transmission and Distribution

Shields L. Daltroff
Vice President
Electric Production

Charles L. Fritz
Vice President
Personnel and Industrial Relations

Raymond F. Holman
Vice President
General Administration

John S. Kemper
Vice President
Engineering and Research

William B. Morlok
Vice President
Commercial Operations

Philip G. Mulligan
Vice President
Gas Operations

Joseph F. Paquette, Jr.
Vice President
Finance and Accounting

A. Lewis Parry, Jr.
Vice President
Purchasing and General Services

Lucy S. Binder
Secretary

Morton W. Rimerman
Treasurer

James D. Lynch
Assistant Secretary

J. Robert Causton
Assistant Treasurer

Jon A. Katherine
Assistant Treasurer

William M. Lennox, Jr.
Assistant Treasurer

Director Changes
William S. Gaither was elected to the Board July 22, 1985.

Richard G. Gilmore was re-elected to the Board December 23, 1985.

William W. Hagerty, a member of the Board of Directors since 1966, died on January 14, 1986. Dr. Hagerty, 69, served as President of Drexel University from 1963 to 1984. We are grateful for his many years of service and are deeply saddened at his passing.

Philadelphia Electric Company
2301 Market Street
PO Box 8699
Philadelphia PA 19101