



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q****QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2004

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Name of Registrant; State of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street – 37th Floor P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-7398	23-2990190
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 10 South Dearborn Street – 37th Floor P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-4321	36-0938600
1-1401	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348 (610) 765-6900	23-3064219

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

The number of shares outstanding of each registrant's common stock as of March 31, 2004 was:

Exelon Corporation Common Stock, without par value	330,488,032
Commonwealth Edison Company Common Stock, \$12.50 par value	127,016,486
PECO Energy Company Common Stock, without par value	170,478,507
Exelon Generation Company, LLC	not applicable

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Exelon Corporation Yes  No  Commonwealth Edison Company, PECO Energy Company and Exelon Generation Company, LLC Yes  No .

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## **FILING FORMAT**

This combined Form 10-Q is being filed separately by Exelon Corporation (Exelon), Commonwealth Edison Company (ComEd), PECO Energy Company (PECO) and Exelon Generation Company, LLC (Generation) (collectively, the Registrants). Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to any other registrant.

## **FORWARD-LOOKING STATEMENTS**

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by a registrant include those factors discussed herein, as well as the items discussed in (a) the Registrants' 2003 Annual Report on Form 10-K — ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Business Outlook and the Challenges in Managing Our Business for each of Exelon, ComEd, PECO and Generation, (b) the Registrants' 2003 Annual Report on Form 10-K — ITEM 8. Financial Statements and Supplementary Data: Exelon — Note 19, ComEd — Note 15, PECO — Note 14 and Generation — Note 13 and (c) other factors discussed in filings with the United States Securities and Exchange Commission (SEC) by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

## **WHERE TO FIND MORE INFORMATION**

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov) and Exelon's website at [www.exeloncorp.com](http://www.exeloncorp.com).

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## EXELON CORPORATION

**EXELON CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
<i>(In millions, except per share data)</i>		
<b>Operating revenues</b>	\$3,722	\$4,074
<b>Operating expenses</b>		
Purchased power	562	840
Purchased power from AmerGen Energy Company, LLC	—	67
Fuel	836	830
Operating and maintenance	1,115	1,109
Depreciation and amortization	301	274
Taxes other than income	192	197
Total operating expenses	3,006	3,317
<b>Operating income</b>	716	757
<b>Other income and deductions</b>		
Interest expense	(130)	(221)
Interest expense to affiliates	(93)	(4)
Distributions on preferred securities of subsidiaries	(1)	(12)
Equity in earnings (losses) of unconsolidated affiliates	(24)	18
Other, net	55	(141)
Total other income and deductions	(193)	(360)
<b>Income before income taxes and cumulative effect of changes in accounting principles</b>	523	397
<b>Income taxes</b>	149	148
<b>Income before cumulative effect of changes in accounting principles</b>	374	249
<b>Cumulative effect of changes in accounting principles (net of income taxes of \$22 and \$69 for the three months ended March 31, 2004 and 2003, respectively)</b>	32	112
<b>Net income</b>	406	361
<b>Other comprehensive income (loss) (net of income taxes)</b>		
Cash-flow hedge adjustment	(203)	(146)
Foreign currency translation adjustment	—	1
Unrealized gain (loss) on marketable securities	40	(5)
SFAS No. 143 transition adjustment	—	168
Interest in other comprehensive income (loss) of unconsolidated affiliates	6	(9)
Total other comprehensive income (loss)	(157)	9
<b>Total comprehensive income</b>	\$ 249	\$ 370
<b>Average shares of common stock outstanding — Basic</b>	330	324
<b>Average shares of common stock outstanding — Diluted</b>	333	326
<b>Earnings per average common share — Basic:</b>		
Income before cumulative effect of changes in accounting principles	\$ 1.14	\$ 0.77
Cumulative effect of changes in accounting principles	0.09	0.34
Net income	\$ 1.23	\$ 1.11
<b>Earnings per average common share — Diluted:</b>		
Income before cumulative effect of changes in accounting principles	\$ 1.13	\$ 0.77
Cumulative effect of changes in accounting principles	0.09	0.34
Net income	\$ 1.22	\$ 1.11



**Dividends per common share**

\$ 0.55

\$ 0.46

See Condensed Combined Notes to Consolidated Financial Statements

**EXELON CORPORATION AND SUBSIDIARY COMPANIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	Three Months Ended March 31,	
	2004	2003
(In millions)		
<b>Cash flows from operating activities</b>		
Net income	\$ 406	\$ 361
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel	458	423
Cumulative effect of changes in accounting principles (net of income taxes)	(32)	(112)
Impairment of investments	3	205
Deferred income taxes and amortization of investment tax credits	217	(64)
Provision for uncollectible accounts	23	31
Equity in losses (earnings) of unconsolidated affiliates	24	(18)
Net realized gains on nuclear decommissioning trust funds	(3)	(6)
Other operating activities	7	(7)
Changes in assets and liabilities:		
Accounts receivable	22	4
Inventories	71	43
Other current assets	(82)	(290)
Accounts payable, accrued expenses and other current liabilities	(165)	(217)
Net realized and unrealized mark-to-market and hedging transactions	24	25
Pension and non-pension postretirement benefits obligations	(85)	(77)
Other noncurrent assets and liabilities	(37)	82
Net cash flows provided by operating activities	851	383
<b>Cash flows from investing activities</b>		
Capital expenditures	(439)	(427)
Proceeds from nuclear decommissioning trust fund sales	307	572
Investment in nuclear decommissioning trust funds	(378)	(622)
Change in restricted cash	70	74
Net cash increase from consolidation of Sithe Energies, Inc.	19	—
Other investing activities	48	20
Net cash flows used in investing activities	(373)	(383)
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	—	951
Retirement of long-term debt	(182)	(963)
Retirement of long-term debt to financing affiliates	(181)	—
Change in short-term debt	(10)	219
Issuance of mandatorily redeemable preferred securities	—	200
Retirement of mandatorily redeemable preferred securities	—	(200)
Payment on acquisition note payable to Sithe Energies, Inc.	(27)	—
Dividends paid on common stock	(181)	(145)
Proceeds from employee stock plans	106	31
Other financing activities	3	(59)
Net cash flows (used in) provided by financing activities	(472)	34
<b>Increase in cash and cash equivalents</b>	<b>6</b>	<b>34</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>493</b>	<b>469</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 499</b>	<b>\$ 503</b>

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 499	\$ 493
Restricted cash and investments	149	97
Accounts receivable, net		
Customer	1,601	1,567
Other	333	343
Mark-to-market derivative assets — energy	399	337
Inventories, at average cost		
Fossil fuel	120	212
Materials and supplies	306	310
Notes receivable from affiliate	—	92
Deferred income taxes	650	567
Assets held for sale	1,309	242
Other	614	413
	—	—
Total current assets	5,980	4,673
	—	—
<b>Property, plant and equipment, net</b>	20,133	20,630
<b>Deferred debits and other assets</b>		
Regulatory assets	5,118	5,226
Nuclear decommissioning trust funds	4,890	4,721
Investments	964	941
Goodwill	4,714	4,719
Mark-to-market derivative assets — energy	375	100
Other	1,385	1,024
	—	—
Total deferred debits and other assets	17,446	16,731
	—	—
<b>Total assets</b>	<b>\$43,559</b>	<b>\$42,034</b>

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Commercial paper	\$ 316	\$ 326
Note payable to Sithe Energies, Inc.	—	90
Long-term debt due within one year	215	1,385
Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transition Trust due within one year	561	470
Accounts payable	1,125	1,314
Mark-to-market derivative liabilities — energy	811	508
Accrued expenses	1,244	1,228
Liabilities held for sale	1,356	61
Other	288	306
Total current liabilities	5,916	5,688
<b>Long-term debt</b>	8,696	7,889
<b>Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transition Trust</b>	4,783	5,055
<b>Long-term debt to other financing trusts</b>	545	545
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	4,701	4,450
Unamortized investment tax credits	284	288
Asset retirement obligation	3,050	2,997
Pension obligations	1,556	1,668
Non-pension postretirement benefits obligations	1,080	1,053
Spent nuclear fuel obligation	869	867
Regulatory liabilities	1,960	1,891
Mark-to-market derivative liabilities — energy	390	141
Other	886	912
Total deferred credits and other liabilities	14,776	14,267
Total liabilities	34,716	33,444
<b>Commitments and contingencies — see Note 13</b>		
<b>Minority interest of consolidated subsidiaries</b>	57	—
<b>Preferred securities of subsidiaries</b>	87	87
<b>Shareholder's equity</b>		
Common stock	7,421	7,292
Retained earnings	2,544	2,320
Accumulated other comprehensive income (loss)	(1,266)	(1,109)
Total shareholders' equity	8,699	8,503
<b>Total liabilities and shareholders' equity</b>	<b>\$43,559</b>	<b>\$42,034</b>

See Condensed Combined Notes to Consolidated Financial Statements

## COMMONWEALTH EDISON COMPANY

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(Unaudited)

(In millions)	Three Months Ended March 31,	
	2004	2003
<b>Operating revenues</b>		
Operating revenues	\$1,325	\$1,411
Operating revenues from affiliates	11	13
Total operating revenues	1,336	1,424
<b>Operating expenses</b>		
Purchased power	3	6
Purchased power from affiliate	530	572
Operating and maintenance	169	231
Operating and maintenance from affiliates	48	30
Depreciation and amortization	102	94
Taxes other than income	79	80
Total operating expenses	931	1,013
<b>Operating income</b>	405	411
<b>Other income and deductions</b>		
Interest expense	(76)	(110)
Interest expense to affiliates	(30)	—
Distributions on mandatorily redeemable preferred securities	—	(7)
Equity in earnings (losses) of unconsolidated affiliates	(3)	—
Interest income from affiliates	6	7
Other, net	3	15
Total other income and deductions	(100)	(95)
<b>Income before income taxes and cumulative effect of a change in accounting principle</b>	305	316
<b>Income taxes</b>	123	126
<b>Income before cumulative effect of a change in accounting principle</b>	182	190
<b>Cumulative effect of a change in accounting principle (net of income taxes of \$0)</b>	—	5
<b>Net income</b>	182	195
<b>Other comprehensive income (net of income taxes)</b>		
Cash-flow hedge adjustment	—	31
Foreign currency translation adjustment	—	1
Total other comprehensive income	—	32
<b>Total comprehensive income</b>	\$ 182	\$ 227

See Condensed Combined Notes to Consolidated Financial Statements

**COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

(In millions)	Three Months Ended March 31,	
	2004	2003
<b>Cash flows from operating activities</b>		
Net income	\$ 182	\$ 195
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	102	94
Cumulative effect of a change in accounting principle (net of income taxes)	—	(5)
Deferred income taxes and amortization of investment tax credits	27	63
Provision for uncollectible accounts	10	12
Equity in (earnings) losses of unconsolidated affiliates	3	—
Other operating activities	8	(3)
Changes in assets and liabilities:		
Accounts receivable	33	(5)
Inventories	(1)	(1)
Accounts payable, accrued expenses and other current liabilities	6	(143)
Changes in receivables and payables to affiliates	(14)	(177)
Other current assets	5	—
Pension and non-pension postretirement benefits obligations	(46)	(36)
Other noncurrent assets and liabilities	(16)	42
	299	36
<b>Cash flows from investing activities</b>		
Capital expenditures	(178)	(174)
Proceeds from Exelon intercompany money pool	179	—
Change in restricted cash	17	(5)
Other investing activities	6	10
	24	(169)
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	—	700
Retirement of long-term debt	(176)	(377)
Payment of long-term debt to ComEd Transitional Funding Trust	(93)	—
Issuance of mandatorily redeemable preferred securities	—	200
Retirement of mandatorily redeemable preferred securities	—	(200)
Change in short-term debt	—	(26)
Dividends paid on common stock	(103)	(120)
Contributions from parent	31	31
Settlement of cash-flow hedges	—	(43)
Other financing activities	—	(16)
	(341)	149
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(18)</b>	<b>16</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>34</b>	<b>16</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 16</b>	<b>\$ 32</b>
<b>Supplemental cash flow information</b>		
Noncash investing and financing activities:		
Adoption of SFAS No. 143 — adjustment to other paid in capital and goodwill	\$ —	\$ 210

See Condensed Combined Notes to Consolidated Financial Statements

## COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 16	\$ 34
Restricted cash	3	20
Accounts receivable, net		
Customer	660	683
Other	48	68
Inventories, at average cost	44	43
Deferred income taxes	5	6
Receivables from affiliates	23	23
Investment in Exelon intercompany money pool	226	405
Other	26	31
	-----	-----
Total current assets	1,051	1,313
	-----	-----
<b>Property, plant and equipment, net</b>	9,188	9,096
<b>Deferred debits and other assets</b>		
Investments	37	36
Investment in affiliates	56	59
Goodwill	4,714	4,719
Receivables from affiliates	2,310	2,271
Pension asset	62	4
Other	442	453
	-----	-----
Total deferred debits and other assets	7,621	7,542
	-----	-----
<b>Total assets</b>	<b>\$17,860</b>	<b>\$17,951</b>
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See Condensed Combined Notes to Consolidated Financial Statements

## COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Long-term debt due within one year	\$ 60	\$ 236
Long-term debt to ComEd Transitional Funding Trust due within one year	312	317
Accounts payable	194	170
Accrued expenses	511	540
Payables to affiliates	188	207
Customer deposits	79	78
Other	12	9
	<hr/>	<hr/>
Total current liabilities	1,356	1,557
	<hr/>	<hr/>
<b>Long-term debt</b>	4,171	4,167
<b>Long-term debt to ComEd Transitional Funding Trust</b>	1,271	1,359
<b>Long-term debt to other affiliates</b>	361	361
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	1,702	1,672
Unamortized investment tax credits	47	48
Non-pension postretirement benefits obligation	202	190
Payables to affiliates	28	28
Regulatory liabilities	1,960	1,891
Other	310	336
	<hr/>	<hr/>
Total deferred credits and other liabilities	4,249	4,165
	<hr/>	<hr/>
Total liabilities	11,408	11,609
	<hr/>	<hr/>
<b>Commitments and contingencies — see Note 13</b>		
<b>Shareholders' equity</b>		
Common stock	1,588	1,588
Preference stock	7	7
Other paid in capital	4,115	4,115
Receivable from parent	(219)	(250)
Retained earnings	962	883
Accumulated other comprehensive income (loss)	(1)	(1)
	<hr/>	<hr/>
Total shareholders' equity	6,452	6,342
	<hr/>	<hr/>
<b>Total liabilities and shareholders' equity</b>	<b>\$17,860</b>	<b>\$17,951</b>
	<hr/>	<hr/>

See Condensed Combined Notes to Consolidated Financial Statements



## PECO ENERGY COMPANY

**PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

	Three Months Ended March 31,	
	2004	2003
(In millions)		
<b>Operating revenues</b>		
Operating revenues	\$1,235	\$1,214
Operating revenues from affiliates	4	3
Total operating revenues	1,239	1,217
<b>Operating expenses</b>		
Purchased power	47	65
Purchased power from affiliate	349	357
Fuel	250	191
Operating and maintenance	112	127
Operating and maintenance from affiliates	23	12
Depreciation and amortization	125	120
Taxes other than income	58	63
Total operating expenses	964	935
<b>Operating income</b>	275	282
<b>Other income and deductions</b>		
Interest expense	(14)	(86)
Interest expense to affiliates	(63)	—
Distributions on mandatorily redeemable preferred securities	—	(2)
Equity in earnings (losses) of unconsolidated affiliates	(7)	—
Other, net	2	9
Total other income and deductions	(82)	(79)
<b>Income before income taxes</b>	193	203
<b>Income taxes</b>	62	66
<b>Net income</b>	131	137
<b>Preferred stock dividends</b>	1	2
<b>Net income on common stock</b>	\$ 130	\$ 135
<b>Other comprehensive income (net of income taxes)</b>		
Net income	\$ 131	\$ 137
Other comprehensive income (net of income taxes):		
Cash-flow hedge adjustment	1	—
Unrealized gain on marketable securities	1	—
Total other comprehensive income	2	—
<b>Total comprehensive income</b>	\$ 133	\$ 137

See Condensed Combined Notes to Consolidated Financial Statements

## PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In millions)	Three Months Ended March 31,	
	2004	2003
<b>Cash flows from operating activities</b>		
Net income	\$ 131	\$ 137
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	125	120
Deferred income taxes and amortization of investment tax credits	(31)	(20)
Provision for uncollectible accounts	10	17
Equity in (earnings) losses of unconsolidated affiliates	7	—
Other operating activities	(4)	3
Changes in assets and liabilities:		
Accounts receivable	(7)	(37)
Changes in receivables and payables to affiliates	(6)	(24)
Inventories	70	45
Accounts payable, accrued expenses and other current liabilities	42	14
Prepaid taxes	(141)	(131)
Deferred energy costs	30	(28)
Other current assets	(3)	—
Pension and non-pension postretirement benefits obligations	8	8
Other noncurrent assets and liabilities	(13)	(8)
Net cash flows provided by operating activities	218	96
<b>Cash flows from investing activities</b>		
Capital expenditures	(48)	(65)
Change in restricted cash	—	136
Other investing activities	—	6
Net cash flows (used in) provided by investing activities	(48)	77
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	—	250
Retirement of long-term debt	—	(364)
Retirement of long-term debt to PECO Energy Transition Trust	(88)	—
Change in short-term debt	35	43
Dividends paid on preferred and common stock	(91)	(91)
Contribution from parent	35	30
Other financing activities	2	—
Net cash flows used in financing activities	(107)	(132)
<b>Increase in cash and cash equivalents</b>	63	41
<b>Cash and cash equivalents at beginning of period</b>	44	63
<b>Cash and cash equivalents at end of period</b>	\$ 107	\$ 104

See Condensed Combined Notes to Consolidated Financial Statements

## PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 107	\$ 44
Accounts receivable, net		
Customer	352	363
Other	35	27
Inventories, at average cost		
Gas	29	99
Materials and supplies	7	7
Deferred income taxes	64	64
Deferred energy costs	51	81
Prepaid taxes	142	1
Other	13	10
	_____	_____
Total current assets	800	696
	_____	_____
<b>Property, plant and equipment, net</b>	4,266	4,256
<b>Deferred debits and other assets</b>		
Regulatory assets	5,118	5,226
Investments	20	20
Investment in affiliates	119	123
Receivables from affiliates	41	13
Pension asset	72	68
Other	11	8
	_____	_____
Total deferred debits and other assets	5,381	5,458
	_____	_____
<b>Total assets</b>	<b>\$10,447</b>	<b>\$10,410</b>
	_____	_____

See Condensed Combined Notes to Consolidated Financial Statements

## PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Commercial paper	\$ 81	\$ 46
Payables to affiliates	144	150
Long-term debt to PECO Energy Transition Trust due within one year	249	153
Accounts payable	77	92
Accrued expenses	290	237
Other	39	35
Total current liabilities	880	713
<b>Long-term debt</b>	1,360	1,359
<b>Long-term debt to PECO Energy Transition Trust</b>	3,512	3,696
<b>Long-term debt to other affiliates</b>	184	184
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	2,961	2,986
Unamortized investment tax credits	21	22
Non-pension postretirement benefits obligation	299	287
Other	137	147
Total deferred credits and other liabilities	3,418	3,442
Total liabilities	9,354	9,394
<b>Commitments and contingencies — see Note 13</b>		
<b>Shareholder's equity</b>		
Common stock	1,999	1,999
Receivable from parent	(1,588)	(1,623)
Preferred stock	87	87
Retained earnings	586	546
Accumulated other comprehensive income	9	7
Total shareholder's equity	1,093	1,016
<b>Total liabilities and shareholder's equity</b>	<b>\$10,447</b>	<b>\$10,410</b>

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON GENERATION COMPANY, LLC

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
(In millions)		
<b>Operating revenues</b>		
Operating revenues	\$1,074	\$ 886
Operating revenues from affiliates	879	993
Total operating revenues	1,953	1,879
<b>Operating expenses</b>		
Purchased power	511	761
Purchased power from affiliates	8	80
Fuel	586	364
Operating and maintenance	587	445
Operating and maintenance from affiliates	65	42
Depreciation and amortization	55	45
Taxes other than income	47	48
Total operating expenses	1,859	1,785
<b>Operating income</b>	94	94
<b>Other income and deductions</b>		
Interest expense	(25)	(15)
Interest expense to affiliates	(1)	(4)
Equity in earnings (losses) of unconsolidated affiliates	(2)	19
Other, net	47	(167)
Total other income and deductions	19	(167)
<b>Income (loss) before income taxes and cumulative effect of changes in accounting principles</b>	113	(73)
<b>Income tax expense (benefit)</b>	46	(21)
<b>Income (loss) before cumulative effect of changes in accounting principles</b>	67	(52)
<b>Cumulative effect of changes in accounting principles (net of income taxes of \$22 and \$70 for the three months ended March 31, 2004 and 2003, respectively)</b>	32	108
<b>Net income</b>	99	56
<b>Other comprehensive income (loss) (net of income taxes)</b>		
Cash-flow hedge adjustment	(195)	(180)
Unrealized gain (loss) on marketable securities	39	(5)
SFAS No. 143 transition adjustment	—	168
Interest in other comprehensive income (loss) of unconsolidated affiliates	2	(9)
Total other comprehensive loss	(154)	(26)
<b>Total comprehensive income (loss)</b>	\$ (55)	\$ 30

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
<b>(In millions)</b>		
<b>Cash flows from operating activities</b>		
Net income	\$ 99	\$ 56
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel	211	195
Cumulative effect of changes in accounting principles (net of income taxes)	(32)	(108)
Impairment of investments	—	200
Deferred income taxes and amortization of investment tax credits	206	(106)
Equity in (earnings) losses of unconsolidated affiliates	2	(19)
Net realized gains on nuclear decommissioning trust funds	(3)	(6)
Other operating activities	(8)	5
Changes in assets and liabilities:		
Accounts receivable	(195)	4
Changes in receivables and payables to affiliates, net	46	244
Inventories	—	(10)
Accounts payable, accrued expenses and other current liabilities	(144)	(59)
Other current assets	21	(119)
Net realized and unrealized mark-to-market and hedging transactions	28	25
Pension and non-pension postretirement benefits obligations	(26)	(32)
Other noncurrent assets and liabilities	(3)	8
Net cash flows provided by operating activities	202	278
<b>Cash flows from investing activities</b>		
Capital expenditures	(213)	(175)
Proceeds from nuclear decommissioning trust fund sales	307	572
Investment in nuclear decommissioning trust funds	(378)	(622)
Net cash increase from consolidation of Sithe Energies, Inc. and Exelon Energy Company	24	—
Change in restricted cash	53	(56)
Other investing activities	55	9
Net cash flows used in investing activities	(152)	(272)
<b>Cash flows from financing activities</b>		
Change in short-term debt	165	—
Payment on acquisition note payable to Sithe Energies, Inc.	(27)	—
Repayment of affiliate money pool funds	(190)	(6)
Distribution to member	(54)	—
Other financing activities	(2)	(1)
Net cash flows used in financing activities	(108)	(7)
<b>Decrease in cash and cash equivalents</b>	<b>(58)</b>	<b>(1)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>158</b>	<b>58</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 100</b>	<b>\$ 57</b>

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 100	\$ 158
Restricted cash	144	75
Accounts receivable, net		
Customer	535	389
Other	290	112
Mark-to-market derivative assets — energy	399	322
Receivables from affiliates	285	421
Inventories, at average cost		
Fossil fuel	91	98
Materials and supplies	256	259
Notes receivable	25	5
Deferred income taxes	559	445
Assets held for sale	1,154	36
Other	209	233
	<hr/>	<hr/>
Total current assets	4,047	2,553
	<hr/>	<hr/>
<b>Property, plant and equipment, net</b>	6,514	7,106
<b>Deferred debits and other assets</b>		
Nuclear decommissioning trust funds	4,890	4,721
Investments	97	65
Receivable from affiliate	22	22
Pension asset	125	79
Mark-to-market derivative asset — energy	375	100
Other	493	118
	<hr/>	<hr/>
Total deferred debits and other assets	6,002	5,105
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$16,563</b>	<b>\$14,764</b>
	<hr/>	<hr/>

See Condensed Combined Notes to Consolidated Financial Statements

## EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2004	December 31, 2003
<b>Liabilities and member's equity</b>		
<b>Current liabilities</b>		
Long-term debt due within one year	\$ 61	\$ 1,068
Commercial paper	165	—
Accounts payable	784	924
Mark-to-market derivative liabilities — energy	811	505
Payables to affiliates	62	1
Notes payable to affiliates	226	506
Accrued expenses	429	434
Liabilities held for sale	1,316	—
Other	95	126
Total current liabilities	3,949	3,564
Long-term debt	2,467	1,649
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	543	299
Unamortized investment tax credits	216	218
Asset retirement obligation	3,048	2,996
Pension obligation	21	21
Non-pension postretirement benefits obligation	576	555
Spent nuclear fuel obligation	869	867
Payable to affiliates	1,267	1,195
Mark-to-market derivative liabilities — energy	390	133
Other	316	308
Total deferred credits and other liabilities	7,246	6,592
Total liabilities	13,662	11,805
<b>Commitments and contingencies — see Note 13</b>		
Minority interest of consolidated subsidiary	59	3
<b>Member's equity</b>		
Membership interest	2,489	2,490
Undistributed earnings	647	602
Accumulated other comprehensive loss	(294)	(136)
Total member's equity	2,842	2,956
<b>Total liabilities and member's equity</b>	<b>\$16,563</b>	<b>\$14,764</b>

See Condensed Combined Notes to Consolidated Financial Statements



EXELON CORPORATION AND SUBSIDIARY COMPANIES

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**1. Basis of Presentation (Exelon, ComEd, PECO and Generation)**

Exelon Corporation (Exelon) is a utility services holding company engaged, through its subsidiaries, in the energy delivery, wholesale generation and the enterprises businesses discussed below (see Note 15 — Segment Information). The energy delivery business segment consists of the purchase and sale of electricity and distribution and transmission services by Commonwealth Edison Company (ComEd) in northern Illinois and PECO Energy Company (PECO) in southeastern Pennsylvania and the sale of natural gas and distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia. The generation business segment consists of the electric generating facilities and energy marketing operations of Exelon Generation Company, LLC (Generation) and Generation's equity interest in EXRES SHC, Inc., the holding company of Sithe Energies, Inc. and its subsidiaries and hereafter referred to as Sithe. The enterprises business segment consists of the energy and infrastructure services of Exelon Enterprises Company, LLC (Enterprises), a communications joint venture and other investments weighted towards the communications, energy services and retail services industries. Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation.

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN No. 46-R), the consolidated financial statements of each of Exelon, ComEd, PECO and Generation include the accounts of entities in which it has a controlling financial interest, other than certain financing trusts of ComEd and PECO described below, after the elimination of intercompany transactions. A controlling financial interest is evidenced by either a voting interest greater than 50% or a risk and rewards model that identifies the registrant as the primary beneficiary of the variable interest entity. Investments and joint ventures in which Exelon, ComEd, PECO and Generation do not have a controlling financial interest and certain financing trusts of ComEd and PECO are accounted for under the equity or cost methods of accounting.

Sithe, a 50% owned subsidiary of Generation, is consolidated in the financial statements of Exelon and Generation as of March 31, 2004 due to the adoption of FIN No. 46-R. Certain trusts and limited partnerships that are financing subsidiaries of ComEd and PECO have issued debt or mandatorily redeemable preferred securities. Due to the adoption of FIN No. 46-R, these trusts and limited partnerships are no longer consolidated within the financial statements of Exelon and ComEd or PECO as of December 31, 2003, or as of July 1, 2003 for PECO Energy Capital Trust IV (PECO Trust IV). See Note 2 — New Accounting Principles for further discussion on the consolidation of Sithe and the deconsolidation of these financing entities.

The accompanying consolidated financial statements as of March 31, 2004 and for the three months then ended are unaudited, but, in the opinions of the managements of Exelon, ComEd, PECO and Generation, include all adjustments that are considered necessary for a fair presentation of their respective financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2003 Consolidated Balance Sheets were derived from audited financial statements but do not include all disclosures required by GAAP. Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or shareholders' or member's equity. These notes should be read in conjunction with the Notes to Consolidated Financial Statements of Exelon, ComEd, PECO and Generation included in or incorporated by reference in ITEM 8 of their Annual Reports on Form 10-K for the year ended December 31, 2003.

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. New Accounting Principles (Exelon, ComEd, PECO and Generation)**

*New Accounting Principles with a Cumulative Effect upon Adoption*

*FIN No. 46 and FIN No. 46-R*

The FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46) in January 2003 and subsequently issued its revision in FIN No. 46-R in December 2003, which addressed the requirements for consolidating certain variable interest entities. FIN No. 46 was effective for Exelon's variable interest entities created after January 31, 2003 and FIN No. 46-R was effective December 31, 2003 for Exelon's other variable interest entities that were considered to be special-purpose entities. FIN No. 46-R applied to all other variable interest entities as of March 31, 2004.

Exelon and Generation consolidated Sithe as of March 31, 2004 pursuant to the provisions of FIN No. 46-R and recorded income of \$32 million (net of income taxes) as a cumulative effect of a change in accounting principle in the first quarter of 2004. Generation is a 50% owner of Sithe, and Exelon and Generation had accounted for Sithe as an unconsolidated equity method investment prior to March 31, 2004. Sithe owns and operates power-generating facilities. See Note 4 — Sithe for a further discussion of the consolidation of Sithe as of March 31, 2004.

PECO Energy Capital Trust IV (PECO Trust IV), a financing subsidiary of PECO created in May 2003, was deconsolidated from the financial statements of Exelon and PECO pursuant to the provisions of FIN No. 46 as of July 1, 2003. As of December 31, 2003, the financing trusts of ComEd, namely ComEd Financing II, ComEd Financing III, ComEd Funding LLC and ComEd Transitional Funding Trust, and the other financing trusts of PECO, namely PECO Energy Capital Trust III (PECO Trust III) and PECO Energy Transition Trust (PETT), were deconsolidated from the financial statements of Exelon, and of ComEd and PECO, respectively, pursuant to the provisions of FIN No. 46-R. Amounts owed to these financing trusts were recorded as debt to financing trusts or affiliates within the Consolidated Balance Sheets at March 31, 2004 and December 31, 2003 as follows:

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
Exelon	\$5,889	\$6,070
ComEd	1,944	2,037
PECO	3,945	4,033

This change in presentation had no impact on net income of Exelon, ComEd or PECO. In accordance with FIN No. 46-R, prior periods were not reclassified.

*SFAS No. 143*

FASB Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) provides accounting requirements for retirement obligations (whether statutory, contractual or as a result of principles of promissory estoppel) associated with tangible long-lived assets. Exelon, ComEd, PECO and Generation were required to adopt SFAS No. 143 as of January 1, 2003. A significant retirement obligation is Generation's obligation to decommission its nuclear plants at the end of their license lives. See Note 11 — Asset Retirement Obligations for additional information.

After considering interpretations of the transitional guidance included in SFAS No. 143, Exelon recorded income of \$112 million (net of income taxes) as a cumulative effect of a change in accounting principle in

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

connection with its adoption of this standard in the first quarter of 2003. The components of the cumulative effect of a change in accounting principle, net of income taxes, were as follows:

Generation (net of income taxes of \$52)	\$ 80
Generation's investments in AmerGen Energy Company, LLC and Sithe (net of income taxes of \$18)	28
ComEd (net of income taxes of \$0)	5
Enterprises (net of income taxes of \$(1))	(1)
	—
Total	\$112

The cumulative effect of the change in accounting principle in adopting SFAS No. 143 had no impact on PECO's income statement.

**Other New Accounting Principles**

*EITF 03-11*

In July 2003, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities' " (EITF 03-11), which was ratified by the FASB in August 2003. The EITF concluded that determining whether realized gains and losses on physically settled derivative contracts not "held for trading purposes" should be reported in the income statement on a gross or net basis is a matter of judgment that depends on the relevant facts and circumstances. Exelon and Generation adopted EITF 03-11 as of January 1, 2004 and presented \$213 million of revenue, \$206 million of purchased power and \$7 million of fuel expense net within revenues during the three months ended March 31, 2004. Prior periods were not reclassified. Had EITF 03-11 been retroactively applied to 2003, revenues, purchased power expense and fuel expense would have been \$252 million, \$232 million, and \$20 million lower for the three months ended March 31, 2003, respectively. The adoption of EITF 03-11 had no impact on net income of Exelon or Generation.

*FSP FAS 106-1*

Through its postretirement benefit plans, Exelon provides retirees with prescription drug coverage. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Prescription Drug Act) was enacted. The Prescription Drug Act introduced a prescription drug benefit under Medicare as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare prescription drug benefit. In response to the enactment of the Prescription Drug Act, the FASB issued FASB Staff Position (FSP) FAS 106-1 (FSP FAS 106-1) in January 2004, which permits a plan sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer the accounting for the effects of the Prescription Drug Act. Exelon has made the one-time election allowed by FSP FAS 106-1. Thus, any measures of non-pension postretirement benefit obligations or net periodic postretirement benefit costs in the financial statements and included in Note 9 — Retirement Benefits do not reflect the effects of the Prescription Drug Act on Exelon's postretirement plans. Exelon is evaluating what impact the Prescription Drug Act will have on its postretirement benefit plans and whether it will be eligible for a Federal subsidy beginning in 2006. Specific

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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

authoritative guidance on the accounting for the Federal subsidy is pending, and that guidance, when issued, could require Exelon to change previously reported information.

*EITF 03-01*

In March 2004, the EITF reached a consensus on and the FASB ratified EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-01). EITF 03-01 provides guidance for evaluating whether an investment is other-than-temporarily impaired and will be applied in other-than-temporary impairment evaluations made by Exelon beginning in the third quarter of 2004. Exelon adopted the disclosure requirements for investments accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" within its financial statements for the year ended December 31, 2003. For all other investments within the scope of EITF 03-01 and for cost method investments, the disclosures will be effective for Exelon for the year ended December 31, 2004. Comparative information for periods prior to initial application is not required. Exelon is still evaluating the potential impacts of EITF 03-01.

*EITF 03-16*

In March 2004, the EITF reached a consensus on and the FASB ratified EITF Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). The EITF concluded that if investors in a limited liability company have specific ownership accounts, they should follow the guidance prescribed in Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," and EITF Topic No. D-46, "Accounting for Limited Partnership Investments." Otherwise, investors should follow the significant influence model prescribed in Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." EITF 03-16 will be effective for Exelon, ComEd, PECO and Generation during the third quarter of 2004. Exelon is still evaluating the potential impact of EITF 03-16.

**3. Acquisitions and Dispositions (Exelon and Generation)**

***Sale of Ownership Interest in Boston Generating, LLC***

Exelon and Generation are in the process of an orderly transition out of the ownership of their indirect wholly owned subsidiary Boston Generating, LLC (Boston Generating), which was formerly owned by Sithe, and Boston Generating's Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities. The decision to transition out of the projects was made as a result of an evaluation of the projects and discussions with the lenders under Boston Generating's \$1.25 billion credit facility, which was entered into primarily to finance the development and construction of the Mystic 8 and 9 and Fore River generating facilities. The Boston Generating Facility is non-recourse to Exelon and Generation, and an event of default under the Boston Generating Facility does not constitute an event of default under any other of Exelon's debt instruments or the debt instruments of Exelon's subsidiaries.

On February 23, 2004, Generation and the lenders entered into a settlement that (subject to closing conditions being met) will result in a sale to a special purpose entity owned by the lenders of the equity interest in Boston Generating, which owns the companies that own the Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, and a transfer of responsibility for plant operations and power marketing activities. The sale of Boston Generating will be substantively a non-cash transaction, with the Boston Generating credit facility continuing as a liability of Boston Generating at the time it is sold, without recourse to Exelon or Generation. Generation affiliates will continue to operate and market power from the plants pending completion of the second stage, when Generation affiliates will transfer plant operations and power marketing

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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

activities to an entity or entities designated by the lenders. The agreement for the sale and transfer remains in full force and effect regardless of the future financial performance or condition of Boston Generating. Upon reaching this agreement, Exelon and Generation have classified the assets and liabilities of Boston Generating as held for sale. See Assets and Liabilities Held for Sale below for information regarding the classification of the assets and liabilities of Boston Generating as held for sale as of March 31, 2004.

Certain aspects of the sale of the ownership interest in Boston Generating and the transfer of responsibility for plant operations and power marketing activities require approval of the Federal Energy Regulatory Commission (FERC). The parties have filed an application with the FERC for an order authorizing the sale of ownership of Boston Generating. The parties anticipate the sale of ownership will be completed during the second quarter of 2004. Subsequent to the sale of ownership of Boston Generating, the parties will file an application with the FERC for an order authorizing the transfer of responsibility for plant operations and power marketing activities. Although the parties anticipate the transfer of responsibility for plant operations and power marketing will be completed during the third quarter of 2004, Generation has agreements to market a portion of Boston Generating's power through 2005.

In connection with the settlement, Exelon, Generation, the lenders and Raytheon Company (Raytheon), the guarantor of the obligations of the turnkey contractor under the projects' engineering, procurement and construction agreements, entered into a global settlement of all disputes relating to the construction of the Mystic 8 and 9 and Fore River generating facilities. See Note 13 — Commitments and Contingencies for information regarding the settlement of litigation associated with the projects.

In connection with the decision to transition out of the ownership of Boston Generating and the generating units, Generation recorded an impairment charge of its long-lived assets pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144) of \$945 million (\$573 million net of income taxes) in operating expenses within the Consolidated Statements of Income and Comprehensive Income during the third quarter of 2003. Generation does not expect to incur any additional losses as a result of the consummation of the sale contemplated by the settlement agreement.

#### *Exelon Energy Company*

Effective January 1, 2004, Exelon contributed its interest in Exelon Energy Company to Generation. The transaction had no impact on the assets and liabilities of Exelon Energy Company, which were previously reported as a part of the Enterprises segment. Beginning in 2004, Exelon Energy Company's assets and liabilities and results of operations are included in Generation's financial statements. Generation and Enterprises' 2003 segment information was adjusted to reflect this transfer in Note 15 — Segment Information.

The following summary represents the assets and liabilities of Exelon Energy Company that were transferred to Generation as of January 1, 2004:

Current assets (including \$5 million of cash)	\$ 89
Property, plant and equipment	2
Deferred debits and other assets	13
Current liabilities	(96)
Deferred credits and other liabilities	(10)
Accumulated other comprehensive loss	(2)
Member's equity	4

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***AmerGen Energy Company, LLC***

On December 22, 2003, Generation purchased British Energy plc's (British Energy) 50% interest in AmerGen Energy Company, LLC (AmerGen) for \$277 million.

Prior to the purchase, Generation was a 50% owner of AmerGen and had accounted for the investment as an unconsolidated equity method investment. For the three months ended March 31, 2003, Generation recorded \$64 million of equity in earnings of unconsolidated affiliates related to its investment in AmerGen and recorded \$67 million of purchased power from AmerGen. The book value of Generation's investment in AmerGen prior to the purchase was \$311 million. For the first quarter of 2004, AmerGen's assets and liabilities and results of operations are included in Generation's financial statements.

Effective January 1, 2004, Generation changed its accounting estimates related to the depreciation of certain AmerGen generating facilities. The estimated service lives were extended by 20 years for the three AmerGen stations. These changes were based on engineering and economic feasibility analyses performed by Generation. The service life extension is subject to approval by the Nuclear Regulatory Commission (NRC) of an extension of the existing NRC operating licenses. Generation has not applied for license extensions at these facilities, but anticipates filing an extension request for the Oyster Creek Nuclear Generating Station (Oyster Creek), and is planning on filing for license extensions at Unit 1 at the Three Mile Island Nuclear Station (TMI) and the Clinton Nuclear Power Station (Clinton) in a timeline consistent and integrated with the other planned extension filings of the Generation nuclear fleet.

***Pro Forma Financial Information (unaudited)***

The following unaudited pro forma financial information gives effect to the acquisition of the remaining 50% interest in AmerGen by Generation and the transfer of Exelon Energy Company to Generation as if the transactions had occurred on January 1, 2003 and were included in Generation's results from that date.

*Exelon*

	<b>Three Months Ended March 31, 2003</b>
Total operating revenue	\$4,155
Operating income	771
Income before cumulative effect of changes in accounting principles	266
Net income(a)	884
<hr/>	
Earnings per share:	
Pro forma earnings per average common share — basic:	
Income before cumulative effect of changes in accounting principles	\$ 0.82
Cumulative effect of changes in accounting principles	1.89
Net income	\$ 2.71
<hr/>	
Pro forma earnings per average common share — diluted:	
Income before cumulative effect of changes in accounting principles	\$ 0.82
Cumulative effect of changes in accounting principles	1.89
Net income	\$ 2.71

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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

(a) Exelon did not recognize the full benefit of the cumulative effect of change in accounting principle related to AmerGen's adoption of SFAS No. 143.

*Generation*

	<b>Three Months Ended March 31, 2003</b>
Total operating revenue	\$2,226
Operating income	116
Income before cumulative effect of changes in accounting principles	(45)
Net income(a)	569

(a) Generation did not recognize the full benefit of the cumulative effect of changes in accounting principle related to AmerGen's adoption of SFAS No. 143.

The above unaudited pro forma financial information should not be relied upon as being indicative of the historical results that would have been obtained if these acquisitions had actually occurred on that date, nor of the results that may be obtained in the future.

***Assets and Liabilities Held for Sale***

The major classes of assets and liabilities classified as held for sale within Exelon's Consolidated Balance Sheets as of March 31, 2004 consisted of the following:

	<b>Generation</b>	<b>Thermal</b>	<b>Exelon Services</b>	<b>Total</b>
Cash	\$ —	\$ 10	\$ 1	\$ 11
Accounts receivable, net	9	13	19	41
Other current assets	66	—	5	71
Property, plant and equipment, net	1,063	86	1	1,150
Other long-term assets	16	11	9	36
	\$1,154	\$120	\$ 35	\$1,309
Assets classified as held for sale	\$1,154	\$120	\$ 35	\$1,309
	<b>Generation</b>	<b>Thermal</b>	<b>Exelon Services</b>	<b>Total</b>
Accounts payable, accrued expenses and other current liabilities	\$ 146	\$ 4	\$ 19	\$ 169
Debt	1,136	1	—	1,137
Asset retirement obligation	—	3	—	3
Other long-term liabilities	34	11	2	47
	\$1,316	\$ 19	\$ 21	\$1,356
Liabilities classified as held for sale	\$1,316	\$ 19	\$ 21	\$1,356

*Generation.* Generation classified the assets and liabilities of Boston Generating with net liabilities of \$179 million as held for sale as of March 31, 2004. The net liabilities held for sale for Boston Generating exclude receivables from Generation that eliminate in consolidation. See Sale of Ownership Interest in Boston Generating, LLC above for further information regarding a settlement with the lenders under the Boston

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Generating Facility. Additionally, \$17 million of the net assets of Sithe that were consolidated at March 31, 2004 under the provisions of FIN No. 46-R were classified as assets and liabilities held for sale.

*Exelon Thermal Holdings Inc.* In December 2003, Enterprises signed an agreement to sell its Chicago business of Exelon Thermal Holdings, Inc. (Thermal) for approximately \$135 million, subject to working capital adjustments. The agreement to sell the Chicago thermal operations is subject to customary closing conditions and approval from the City of Chicago (Chicago) under Thermal's Chicago franchise agreement and is expected to close during the second quarter of 2004. The debt of the Chicago thermal operations is required to be repaid by Enterprises prior to closing, which, in the absence of relief from the debt holders, will result in prepayment penalties. The total debt outstanding of the Chicago thermal operations as of March 31, 2004 was \$37 million. The assets and liabilities of certain entities of Exelon Thermal were classified as held for sale as of March 31, 2004.

*Exelon Services Inc.* Exelon classified the assets and liabilities of certain Exelon Services, Inc. (Exelon Services) entities as held for sale as of March 31, 2004 due to ongoing efforts to dispose of these businesses. These entities are expected to be sold in 2004.

***Synthetic Fuel-Producing Facilities***

In November 2003, Exelon purchased interests in two synthetic fuel-producing facilities. Synthetic fuel facilities chemically change coal, including waste and marginal coal, into a fuel used at power plants. In April 2004, the Internal Revenue Service (IRS) issued two private letter rulings that affirmed that the process used by the facilities will produce a solid synthetic fuel that qualifies for tax credits under Section 29 of the Internal Revenue Code.

**4. Sithe (Exelon and Generation)**

Sithe is primarily engaged in the development, construction, ownership and operation of electric wholesale generating facilities in North America. At March 31, 2004, excluding assets held for sale, Sithe operated nine power plants representing an aggregate average net capacity of 1,323 megawatts (MW). Sithe also has interests in two 230 MW projects in Mexico which are expected to commence commercial operations during the second quarter of 2004.

On November 25, 2003, Generation, Reservoir Capital Group (Reservoir) and Sithe completed a series of transactions resulting in Generation and Reservoir each indirectly owning a 50% interest in Sithe (Generation owned 49.9% prior to November 25, 2003). Generation's intent is to fully divest of Sithe. See the 2003 Form 10-K for further details regarding these transactions.

Exelon and Generation had accounted for the investment in Sithe as an unconsolidated equity method investment prior to its consolidation on March 31, 2004 pursuant to FIN No. 46-R. See Note 2 — New Accounting Principles and Accounting Changes for a discussion of Sithe in relation to FIN No. 46-R.

As a result of the series of transactions referred to above, the consolidation of Sithe at March 31, 2004 was accounted for as a step acquisition pursuant to purchase accounting policies. Under the provisions of FIN No. 46-R, the operating results of Sithe will be included in Exelon's and Generation's results of operations beginning April 1, 2004. Sithe has entered into tolling arrangements (Tolling Agreement) with Dynegy Power Marketing and its affiliates that commenced on July 1, 2001 and run through 2014. Additionally, Sithe has entered into an Energy Purchase Agreement (EPA) with Consolidated Edison Company, which continues through 2014. As a result of the acquisition accounting described above, values were assigned to the Tolling Agreement and EPA on March 31, 2004 of approximately \$91 million and \$282 million, respectively, which



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have been recorded as intangible assets on Exelon's and Generation's Consolidated Balance Sheets in deferred debits and other assets. The Tolling Agreement and EPA will be amortized using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or used up in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," not to exceed the terms of the contract. The allocation of fair value related to the valuation of long-lived assets is preliminary, and will be finalized in the second quarter of 2004. In connection with the consolidation of Sithe, certain indemnification guarantees, which were recorded in accordance with the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtness of Others" at Generation on November 25, 2003 pursuant to the series of transactions referred to above, were reversed as Generation can no longer record liabilities associated with guarantees for the performance of a consolidated entity. The reversal of the guarantees resulted in Exelon and Generation recording income of \$32 million (net of income taxes) as a cumulative effect of a change in accounting principle. The following condensed consolidating financial information presents the financial position of Exelon, Generation and Sithe, as well as consolidating entries related primarily to acquisition notes payables and receivables between Generation and Sithe.

*Exelon Condensed Consolidating Balance Sheet at March 31, 2004*

	Exelon	Sithe	Eliminating Entries	Exelon Consolidated
<b>Assets</b>				
Current assets	\$ 4,500	\$ 326	\$(155)	\$ 4,671
Assets held for sale	1,149	160	—	1,309
Property, plant and equipment, net	19,855	278	—	20,133
Other noncurrent assets	16,756	739	(49)	17,446
<b>Total assets</b>	<b>\$42,260</b>	<b>\$1,503</b>	<b>\$(204)</b>	<b>\$43,559</b>
<b>Liabilities and stockholders' equity</b>				
Current liabilities	\$ 4,488	\$ 227	\$(155)	\$ 4,560
Liabilities held for sale	1,213	143	—	1,356
Long-term debt	13,207	817	—	14,024
Other liabilities(a)	14,566	212	55	14,833
Stockholders' equity(b)	8,786	104	(104)	8,786
<b>Total liabilities and stockholders' equity</b>	<b>\$42,260</b>	<b>\$1,503</b>	<b>\$(204)</b>	<b>\$43,559</b>

(a) Includes minority interest of consolidated subsidiaries.

(b) Includes preferred securities of subsidiaries.

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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Generation Condensed Consolidating Balance Sheet at March 31, 2004*

	Generation	Sithe	Eliminating Entries	Generation Consolidated
<b>Assets</b>				
Current assets	\$ 2,722	\$ 326	\$(155)	\$ 2,893
Assets held for sale	994	160	—	1,154
Property, plant and equipment, net	6,236	278	—	6,514
Other noncurrent assets	5,312	739	(49)	6,002
<b>Total assets</b>	<b>\$15,264</b>	<b>\$1,503</b>	<b>\$(204)</b>	<b>\$16,563</b>
<b>Liabilities and members' equity</b>				
Current liabilities	\$ 2,561	\$ 227	\$(155)	\$ 2,633
Liabilities held for sale	1,173	143	—	1,316
Long-term debt	1,650	817	—	2,467
Other liabilities(a)	7,038	212	55	7,305
Member's equity	2,842	104	(104)	2,842
<b>Total liabilities and members' equity</b>	<b>\$15,264</b>	<b>\$1,503</b>	<b>\$(204)</b>	<b>\$16,563</b>

(a) Includes minority interest of consolidated subsidiaries.

The book value of Generation's investment in Sithe immediately prior to its consolidation on March 31, 2004 was \$49 million. Generation recorded \$2 million of equity method losses and \$2 million of equity method income for its investment in Sithe during the three months ended March 31, 2004 and 2003, respectively.

Substantially all of Sithe's property, plant and equipment and project agreements secure Sithe's outstanding long-term debt, which consists primarily of project debt. During 2003, Sithe entered into an agreement with Exelon under which Exelon would obtain letters of credit to support contractual obligations of Sithe and its subsidiaries. As of March 31, 2004, Exelon has obtained \$66 million of letters of credit in support of Sithe's obligations. With the exception of the issuance of letters of credit, the creditors of Sithe have no recourse against the general credit of Exelon or Generation.

**5. Stock-Based Compensation (Exelon, ComEd, PECO and Generation)**

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123" (SFAS No. 148). Exelon adopted the additional disclosure requirements of SFAS No. 148 in 2003 but continues to account for its stock-based compensation plans under the disclosure only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). The tables below show the effect on net income and earnings per share for Exelon and the effect on net income for ComEd, PECO and Generation had Exelon elected to account for

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stock-based compensation plans using the fair-value method under SFAS No. 123 for the three months ended March 31, 2004 and 2003:

***Exelon***

	Three Months Ended March 31,	
	2004	2003
Net income — as reported	\$ 406	\$ 361
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes	(5)	(5)
Pro forma net income	\$ 401	\$ 356
Earnings per share:		
Basic — as reported	\$1.23	\$1.11
Basic — pro forma	\$1.22	\$1.10
Diluted — as reported	\$1.22	\$1.11
Diluted — pro forma	\$1.21	\$1.09

***ComEd***

	Three Months Ended March 31,	
	2004	2003
Net income — as reported	\$182	\$195
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes	(1)	(1)
Pro forma net income	\$181	\$194

***PECO***

	Three Months Ended March 31,	
	2004	2003
Net income on common stock — as reported	\$130	\$135
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes	(1)	(1)
Pro forma net income on common stock	\$129	\$134

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**Generation**

	Three Months Ended March 31,	
	2004	2003
Net income — as reported	\$ 99	\$ 56
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes	(3)	(1)
Pro forma net income	\$ 96	\$ 55

**6. Regulatory Issues (Exelon and ComEd)**

*PJM Integration.* On April 1, 2003, ComEd received approval from the FERC to transfer control of its transmission assets to the PJM Interconnection (PJM). The FERC also accepted for filing the amended PJM Tariff to reflect the inclusion the transmission assets of ComEd and other new members, subject to a compliance filing and to hearing on certain issues. On June 2, 2003, ComEd began receiving electric transmission reservation services from PJM and transferred control of ComEd's Open Access Same Time Information System to PJM. Although full integration of ComEd's transmission assets into PJM's energy market structures was scheduled to occur in November 2003, the integration was delayed due to the August 14, 2003 power blackout in the Northeast United States and Canada and the analysis of the impacts of that event. On March 18, 2004, the FERC approved ComEd's plan to complete its integration into PJM, subject to the North American Electric Reliability Council (NERC) approval of the PJM and Midwest ISO reliability plans to assure no adverse impacts. The NERC granted the required approval on April 2, 2004. On April 27, 2004, the FERC issued its order approving ComEd's application to fully integrate into PJM on May 1, 2004. ComEd intends to accept the conditions in the FERC order and expects full integration to occur on that date.

*Delivery Service Rates.* On March 3, 2003, ComEd entered into, and the Illinois Commerce Commission (ICC) subsequently entered orders that effectuated, an agreement (Agreement) with various Illinois retail market participants and other interested parties that settled, among other things, delivery service rates and the market value index proceeding and facilitates competitive service declarations for large-load customers and an extension of the purchased power agreement (PPA) with Generation. A non-party to the Agreement appealed one of the ICC's orders which appeal, if ultimately successful, would have affected the Agreement on a prospective basis. Appeals were taken from the ICC's orders on the competitive declaration and hourly pricing. On March 24, 2004, the Appellate Court issued an opinion affirming the ICC's orders.

*Open Access Transmission Tariff.* On November 10, 2003, the FERC issued an order allowing ComEd to put into effect beginning April 12, 2004, subject to refund and rehearing, new transmission rates designed to reflect nearly \$500 million of infrastructure investments made since 1998. However, because of the Illinois retail rate freeze and the method for calculating competitive transition charges (CTC), the increase is not expected to have a significant effect on operating revenues until after December 31, 2006. ComEd has made a filing with the FERC indicating that it will not begin charging the new rates before May 1, 2004. ComEd is unable to predict the ultimate outcome of the associated rehearing or settlement negotiations.

**7. Long-Term Debt (Exelon, ComEd, PECO and Generation)**

***Boston Generating Facility***

Approximately \$1.0 billion of debt was outstanding under the non-recourse Boston Generating Facility at December 31, 2003, all of which was reflected in the Consolidated Balance Sheets of Exelon and Generation

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as a current liability due to certain events of default. The Boston Generating Facility required that the Mystic 8 and 9 and Fore River generating facilities achieve “Project Completion” as defined in the Boston Generating Facility (Project Completion) by July 12, 2003. Project Completion was not achieved by July 12, 2003, resulting in an event of default under the Boston Generating Facility.

At March 31, 2004, the \$1.0 billion of debt then outstanding under the Boston Generating Facility was reclassified from the current portion of long-term debt to liabilities held for sale on the Consolidated Balance Sheets of Exelon and Generation. The outstanding debt under the Boston Generating Facility will be eliminated from the financial statements of Exelon and Generation upon the sale of Generation’s ownership interest in Boston Generating. See Note 3 — Acquisitions and Dispositions for additional information regarding the sale of Generation’s ownership interest in Boston Generating.

**Long-Term Debt**

During the three months ended March 31, 2004, the following long-term debt was retired or redeemed:

Company	Type	Interest Rate	Maturity	Amount
ComEd	Note	7.375%	January 15, 2004	\$150
ComEd	Pollution Control Revenue Bonds	5.30%	January 15, 2004	26
Total retirements and redemptions				\$176

During the three months ended March 31, 2004, ComEd made payments of \$93 million related to its obligation to the ComEd Transitional Funding Trust, and PECO made payments of \$88 million related to its obligation to the PETT.

*Sithe Long-Term Debt.* At March 31, 2004, the following long-term debt was consolidated in Exelon and Generation’s Consolidated Balance Sheets as a result of the adoption of FIN No. 46-R. See Note 2 — New Accounting Principles and Note 4 — Sithe for further information regarding the consolidation of Sithe.

	Interest Rate	Maturity	Amount
<b>Non-recourse project debt:</b>			
<b>Independence notes and bonds:</b>			
Secured bonds payable in semiannual installments commencing June 2003	8.50%	2007	\$127
Secured bonds payable in semiannual installments commencing December 2007	9.00%	2013	439
<b>Term loan repayable primarily in quarterly installments:</b>			
Batavia	18.00%	2007	1
<b>Subordinated debt:</b>			
Tracking account loan payable in semiannual installments commencing June 2015	8.68%	2035	283
Total long-term debt (including current maturities)			\$850

Additionally, long-term debt of Sithe classified as liabilities held for sale of \$99 million was consolidated at March 31, 2004 as a result of the adoption of FIN No. 46-R.

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*Maturities of Sithe Long-Term Debt.* Aggregate maturities of Sithe’s long-term debt from continuing operations during the next five years are estimated as follows:

2004	\$ 32
2005	34
2006	37
2007	40
2008	44
2009 and thereafter	764
<hr/>	
Total minimum payments	951
Net debt discount to be amortized to interest expense	(101)
<hr/>	
Present value of minimum payments	\$ 850
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**8. Severance Benefits (Exelon, ComEd, PECO and Generation)**

Exelon, ComEd, PECO and Generation provide severance and health and welfare benefits to terminated employees pursuant to pre-existing severance plans primarily based upon each employee’s years of service with Exelon and compensation level. The registrants account for their ongoing severance plans in accordance with SFAS No. 112, “Employer’s Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43” and SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits” and accrue amounts associated with severance benefits that are considered probable and that can be reasonably estimated.

The following table details, by segment, Exelon’s total salary continuance severance costs for the three months ended March 31, 2004. There were no significant salary continuance severance costs recorded during the three months ended March 31, 2003.

Salary continuance severance	Energy Delivery	Generation	Enterprises	Corporate	Exelon Consolidated
Expense (income) recorded in three months ended March 31, 2004(a)	\$ 5	\$(6)	\$ 1	\$ 1	\$ 1

(a) In 2004, Generation recorded a charge of \$1 million for new positions identified and reversed \$7 million for accruals in excess of the reserve for individuals previously identified under The Exelon Way, a company-wide effort to define how Exelon will conduct business in years to come.

The following table provides total salary continuance severance costs for ComEd, PECO and Generation for the three months ended March 31, 2004. There were no significant salary continuance severance costs recorded during the three months ended March 31, 2003.

Salary continuance severance	ComEd	PECO	Generation
Expense (income) recorded in three months ended March 31, 2004(a)	\$ —	\$ 5	\$(6)

(a) In 2004, Generation recorded a charge of \$1 million for new positions identified and reversed \$7 million for accruals in excess of the reserve for individuals previously identified under The Exelon Way.

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The following tables provide a roll forward of the salary continuance severance obligations from January 1, 2003 through March 31, 2004 for Exelon, ComEd, PECO and Generation:

Salary continuance obligations	Exelon Consolidated	ComEd	PECO	Generation
Balance at January 1, 2003	\$ 39	\$ 15	\$ —	\$ 11
Additions	135	61	16	38
Payments	(39)	(21)	(2)	(9)
Other adjustments	4	—	—	3
	—	—	—	—
Balance at January 1, 2004	139	55	14	43
Additions (Reductions)(a)	1	—	5	(6)
Payments	(22)	(7)	(1)	(8)
Other adjustments(b)	(5)	—	—	(2)
	—	—	—	—
Balance at March 31, 2004	\$113	\$ 48	\$ 18	\$ 27

- (a) In 2004, Generation recorded a charge of \$1 million for new positions identified and reversed \$7 million for accruals in excess of the reserve for individuals previously identified under The Exelon Way.
- (b) In 2004, Generation increased the reserve for liabilities acquired upon consolidation of Exelon Energy Company and reduced the reserve for liabilities associated with Boston Generating which have been reclassified to liabilities held for sale at March 31, 2004.

**9. Retirement Benefits (Exelon, ComEd, PECO and Generation)**

Exelon sponsors defined benefit pension plans and postretirement welfare benefit plans applicable to essentially all ComEd, PECO, Generation and Exelon Business Services Company (BSC) employees and certain employees of Enterprises. Substantially all non-union employees and electing union employees hired on or after January 1, 2001 participate in Exelon-sponsored cash balance pension plans.

The defined benefit pension plans and postretirement welfare benefit plans are accounted for in accordance with SFAS No. 87, "Employer's Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," respectively. The costs of providing benefits under these plans are dependent on historical information, such as employee age, length of service and level of compensation, and the actual rate of return on plan assets, in addition to assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, rate of compensation increase and the anticipated rate of increase in health care costs. The impact of changes in these factors on pension and other postretirement welfare benefit obligations is generally recognized over the expected remaining service life of the employees rather than immediately recognized in the income statement. Exelon uses a December 31 measurement date for the majority of its plans.

The following table provides the components of the net periodic benefit costs recognized for the three months ended March 31, 2004 and 2003, including the net periodic benefit costs of AmerGen's pension and postretirement plans for 2004. The expected long-term rates of return on plan assets used to estimate 2004

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pension and other postretirement benefit costs are 9.00% and 8.33%, respectively. A portion of the net periodic benefit cost is capitalized within the Consolidated Balance Sheets.

	Pension Benefits Three Months Ended March 31,		Other Postretirement Benefits Three Months Ended March 31,	
	2004	2003	2004	2003
Service cost	\$ 33	\$ 27	\$ 22	\$ 17
Interest cost	134	130	47	42
Expected return on assets	(154)	(146)	(23)	(19)
Amortization of:				
Transition obligation (asset)	(1)	(1)	2	2
Prior service cost	4	4	(19)	(13)
Actuarial (gain) loss	15	6	19	12
Net periodic benefit cost	<u>\$ 31</u>	<u>\$ 20</u>	<u>\$ 48</u>	<u>\$ 41</u>

Exelon sponsors savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pre-tax income in accordance with specified guidelines. Exelon matches a percentage of the employee contribution up to certain limits. The following table details, by registrant, the matching contribution to the savings plans during the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
	2004	2003
Savings plan matching contributions		
Exelon	\$ 14	\$ 12
ComEd	4	4
PECO	2	2
Generation	7	6

**10. Income Taxes (Exelon and Generation)**

**Exelon**

Exelon's effective income tax rate decreased from 37% for the three months ended March 31, 2003 to 28% for the same period in 2004, primarily due to investments in the synthetic fuel-producing facilities. See Note 3 — Acquisitions and Dispositions for further information regarding these investments.

**Generation**

Generation's effective tax rate increased from 29% for the three months ended March 31, 2003 to 41% for the same period in 2004. This increase was primarily attributable to impairment charges recorded in 2003 related to Generation's investment in Sithe which resulted in a pre-tax loss. In addition, tax exempt interest income and nuclear decommissioning investment income were higher in 2004 as compared to 2003, as a result of owning 100% of AmerGen as compared to owning 50% in the first quarter of 2003.



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**11. Asset Retirement Obligations (Exelon and Generation)**

SFAS No. 143 provides accounting guidance for retirement obligations (whether statutory, contractual or as a result of principles of promissory estoppel) associated with tangible long-lived assets. SFAS No. 143 asset retirement obligations have been established at Generation in connection with its obligation to decommission its nuclear power plants as well as legal obligations associated with the closing of its fossil power plants. Based on the extended license lives of the nuclear plants, decommissioning expenditures are expected to occur primarily during the period 2029 through 2056. Exelon, through its regulated subsidiary utility companies, ComEd and PECO, currently recovers costs for decommissioning its nuclear generating stations, excluding the AmerGen plants, through regulated rates. The amounts recovered from customers are deposited in trust accounts and invested for funding the future decommissioning costs of nuclear generating stations.

Generation had decommissioning assets in trust accounts of \$4,890 million and \$4,721 million as of March 31, 2004 and December 31, 2003, respectively, included as nuclear decommissioning trust funds on Generation's Consolidated Balance Sheets. Generation anticipates that all trust fund assets will ultimately be used to decommission Generation's nuclear plants.

The following table provides a reconciliation of the ARO reflected on the Exelon and Generation Consolidated Balance Sheets at December 31, 2003 and March 31, 2004:

	<u>Generation</u>	<u>Exelon</u>
Asset retirement obligation at January 1, 2003	\$2,363	\$2,366
Consolidation of AmerGen	487	487
Accretion expense	160	161
Expenditures to decommission retired plants	(14)	(14)
Reclassification of Thermal ARO as held for sale	—	(3)
	<u>2,996</u>	<u>2,997</u>
Asset retirement obligation at December 31, 2003	2,996	2,997
Accretion expense for the three months ended March 31, 2004	50	51
Additional liabilities incurred(a)	5	5
Expenditures on currently retired units	(3)	(3)
	<u>\$3,048</u>	<u>\$3,050</u>

(a) Additional liabilities incurred are primarily due to the consolidation of Sithe, as required by FIN No. 46-R.

**12. Earnings Per Share and Stock Split (Exelon)**

***Earnings per Share***

Diluted earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options outstanding under Exelon's stock option plans considered to be common stock equivalents. The following table shows the

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effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended March 31,	
	2004	2003
Average common shares outstanding	330	324
Assumed exercise of stock options	3	2
Average dilutive common shares outstanding	333	326

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 1 million and 5 million for three months ended March 31, 2004 and 2003, respectively.

### **Stock Split**

On January 27, 2004, the Board of Directors of Exelon approved a 2-for-1 stock split of Exelon's common stock. The record date for the stock split is April 19, 2004 and the distribution date will be May 5, 2004. The share and per-share amounts included in Exelon's consolidated financial statements do not reflect the stock split. At the distribution date, the share and per-share amounts included in Exelon's consolidated financial statements will be adjusted to reflect the stock split.

The following table presents average shares of common stock outstanding (basic and diluted), earnings per average common share (basic and diluted) and dividends per common share for the three months ended March 31, 2004 and 2003 on a pro forma basis as if the stock split had been reflected in the accompanying consolidated financial statements.

	Three Months Ended March 31,	
	2004	2003
Pro forma average shares of common stock outstanding		
Basic	659	648
Diluted	665	652
Pro forma earnings per average common share — basic:		
Income before cumulative effect of changes in accounting principles	\$0.57	\$0.39
Cumulative effect of changes in accounting principles	0.05	0.17
Net income	\$0.62	\$0.56
Pro forma earnings per average common share — diluted:		
Income before cumulative effect of changes in accounting principles	\$0.56	\$0.38
Cumulative effect of changes in accounting principles	0.05	0.17
Net income	\$0.61	\$0.55
Pro forma dividends per common share	\$0.27	\$0.23

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**13. Commitments and Contingencies (Exelon, ComEd, PECO and Generation)**

For information regarding capital commitments, nuclear decommissioning and spent fuel storage, see the Commitments and Contingencies and Nuclear Decommissioning and Spent Fuel Storage Notes in the Notes to Consolidated Financial Statements of Exelon, ComEd, PECO and Generation in the 2003 Form 10-K.

***Energy Commitments***

At March 31, 2004, Generation's long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others, including the Midwest Generation contract, did not change significantly as set forth in the 2003 Form 10-K, except as discussed below:

- In the normal course of business, Generation entered into commitments for new capacity purchases and power-only sales.
- Sithe has power-only sales commitments of \$75 million, transmission rights of \$36 million and minimum fuel purchase commitments of \$109 million.

***Commercial Commitments***

Exelon, ComEd, PECO and Generation's commercial commitments as of March 31, 2004, representing commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure obligations, were materially unchanged from the amounts set forth in the 2003 Form 10-K except for the following:

- In connection with the transfer of Exelon Energy Company to Generation effective January 1, 2004, Generation acquired \$162 million in energy marketing contract guarantees. This transfer had no effect on the guarantees of Exelon.
- In connection with the consolidation of Sithe pursuant to FIN No. 46-R, Generation maintains a \$50 million non-debt letter of credit under its credit agreement. See Exelon's "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Credit Issues" below for further discussion of Exelon's credit agreement.

***Environmental Liabilities***

Exelon, ComEd, PECO and Generation accrue amounts for environmental investigation and remediation costs that can be reasonably estimated, including amounts for manufactured gas plant (MGP) investigation and remediation. Exelon has identified 69 sites where former MGP activities have or may have resulted in actual site contamination. Of these 69 sites, the Illinois Environmental Protection Agency has approved the clean-up of 3 sites and the Pennsylvania Department of Environmental Protection has approved the clean-up of 7 sites. Pursuant to a Pennsylvania Public Utility Commission (PUC) order, PECO is currently recovering a provision for environmental costs annually for the remediation of former MGP facility sites, for which PECO has recorded a regulatory asset (see Note 14 — Supplemental Financial Information). As of

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March 31, 2004 and December 31, 2003, Exelon, ComEd, PECO and Generation have accrued the following amounts for environmental liabilities:

March 31, 2004	Total environmental investigation and remediation reserve	Portion of total related to MGP investigation and remediation
Exelon	\$126	\$104(a)
ComEd	68	63(a)
PECO	50	41(a)
Generation	8	—

(a) Discounted.

December 31, 2003	Total environmental investigation and remediation reserve	Portion of total related to MGP investigation and remediation
Exelon	\$129	\$105(a)
ComEd	69	64(a)
PECO	50	41(a)
Generation	10	—

(a) Discounted.

Exelon, ComEd, PECO and Generation cannot predict the extent to which they will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by environmental agencies or others, or whether such costs may be recoverable from third parties.

### ***Litigation***

#### ***ComEd***

***Retail Rate Law.*** In 1996, several developers of non-utility generating facilities filed litigation against various Illinois officials claiming that the enforcement against those facilities of an amendment to Illinois law removing the entitlement of those facilities to state-subsidized payments for electricity sold to ComEd after March 15, 1996 violated their rights under the Federal and state constitutions. The developers also filed suit against ComEd for a declaratory judgment that their rights under their contracts with ComEd were not affected by the amendment and for breach of contract. On November 25, 2002, the court granted the developers' motions for summary judgment. The judge also entered a permanent injunction enjoining ComEd from refusing to pay the retail rate on the grounds of the amendment and Illinois from denying ComEd a tax credit on account of such purchases. ComEd and Illinois each appealed the ruling. On March 9, 2004, the Illinois Appellate Court reversed the trial court. The Appellate Court held that the 1996 law does apply to the developers' facilities and, therefore, they are not entitled to subsidized payments. The Court expressly ruled that the breach of contract claims against ComEd are dismissed with prejudice. Plaintiffs have sought review of the Appellate Court's decision by the Illinois Supreme Court. There is no set date by which the Court must decide if it will hear the case. While it cannot currently predict the ultimate outcome of this action, ComEd does not believe that it will have a material adverse impact on its results of operations or its cash flows.

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*PECO and Generation*

*Real Estate Tax Appeals.* PECO and Generation are each challenging real estate taxes assessed on nuclear plants since 1997. PECO is involved in litigation in which it is contesting taxes assessed in 1997 under the Pennsylvania Public Utility Realty Tax Act of March 4, 1971, as amended (PURTA), and has appealed local real estate assessments for 1998 and 1999 on the Limerick Generating Station (Montgomery County, PA) (Limerick) and Peach Bottom Atomic Power Station (York County, PA) (Peach Bottom) plants. Generation is involved in real estate tax appeals for 2000 through 2003, also regarding the valuation of its Limerick and Peach Bottom plants, its Quad Cities Station (Rock Island County, IL) and, through its wholly owned subsidiary AmerGen, Three Mile Island Nuclear Station (Dauphin County, PA).

While PECO and Generation believe their reserve balances for exposures associated with the real estate taxes as of March 31, 2004 reflect the most likely probable expected outcome of the litigation and appeals proceedings in accordance with SFAS No. 5, "Accounting for Contingencies," the ultimate outcome of such matters could result in additional unfavorable or favorable adjustments to the consolidated financial statements of Exelon, PECO and Generation and such adjustments could be material.

*Generation*

*Cotter Corporation Litigation.* During 1989 and 1991, actions were brought in Federal and state courts in Colorado against ComEd and its subsidiary, Cotter Corporation (Cotter), seeking unspecified damages and injunctive relief based on allegations that Cotter permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by the plaintiffs, resulting in property damage and potential adverse health effects. Several of these actions resulted in nominal jury verdicts or were settled or dismissed. One action resulted in an award for the plaintiffs of a more substantial amount, but was reversed on April 22, 2003 by the Tenth Circuit Court of Appeals and remanded for retrial. An appeal by the plaintiffs to the United States Supreme Court was denied on November 10, 2003. No date has been set for a new trial.

On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of these actions, as well as any liability arising in connection with the West Lake Landfill discussed in the next paragraph. In connection with Exelon's 2001 corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred by ComEd to Generation. Generation cannot predict the ultimate outcome of the cases.

The U.S. Environmental Protection Agency (EPA) has advised Cotter that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. Cotter is alleged to have disposed of approximately 39,000 tons of soils mixed with 8,700 tons of leached barium sulfate at the site. Cotter, along with three other companies identified by the EPA as potentially responsible parties (PRPs), has submitted a draft feasibility study addressing options for remediation of the site. The PRPs are also engaged in discussions with the State of Missouri and the EPA. The estimated costs of remediation for the site range from \$0 to \$87 million. Once a remedy is selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Generation cannot predict its share of the costs.

*Raytheon and Mitsubishi Litigation.* Since 2002, Raytheon Corporation (Raytheon), Fore River Development, LLC, Mystic Development, LLC, Mitsubishi Heavy Industries, LTD (MHI) and Mitsubishi Heavy Industries of America (MHIA) have been in litigation over various matters in connection with the construction of the Mystic 8 and 9 and Fore River generating facilities in Massachusetts. In connection with

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the settlement among Exelon, Generation and the lenders under the Boston Generating credit facility more fully described in Note 3 — Acquisitions and Dispositions, Exelon, Generation, the lenders and Raytheon, the guarantor of the obligations of the turnkey contractor under the projects' engineering, procurement and construction agreements, entered into a global settlement of all disputes relating to the construction of the Mystic 8 and 9 and Fore River generating facilities. Under the global settlement, Generation agreed to pay approximately \$31.1 million to Raytheon and approximately \$1.4 million to Boston Generating. Raytheon released Exelon, Generation, their affiliates and the lenders from construction claims related to the projects. Raytheon also resolved all of the pending MHI and MHIA claims relating to work performed on the projects prior to the settlement, and has indemnified Exelon, Generation, their affiliates and the lenders from certain subcontractor claims relating to the projects. In return, Exelon, Generation, their affiliates and the lenders released all of their claims against Raytheon. All litigation by and between Raytheon, MHI, MHIA and the project companies relating to the projects has been dismissed, including the proceedings before the New York Supreme Court and the International Chamber of Commerce Court of Arbitration. Raytheon has also ceased all construction activities related to the Mystic 8 and 9 and Fore River generating facilities, assigned subcontracts to the project companies and will cooperate with the transition of construction to a new contractor. In the event that the sale of ownership of Boston Generating and the transfer of plant operations and power marketing activities are not completed by August 1, 2004, under the settlement documents among Exelon and the lenders, Generation will be reimbursed for the \$32.5 million paid in connection with the settlement through a first claim against any payments otherwise payable to the lenders on account of their interests in the projects.

*Clean Air Act.* On June 1, 2001, the EPA issued to a subsidiary of Generation a Notice of Violation (NOV) and Reporting Requirement pursuant to Sections 113 and 114 of the Clean Air Act. The NOV alleges numerous exceedances of opacity limits and violations of opacity-related monitoring, recording and reporting requirements at Mystic Units 4-7 in Everett, Massachusetts. In March 2002, the EPA issued and Mystic I, LLC, doing business as Mystic Generating (formerly known as Exelon Mystic, LLC) (Mystic), a wholly owned subsidiary of Generation, voluntarily entered a Compliance Order and Reporting Requirement (Order) regarding Mystic Station. Under the Order, Mystic Station installed new ignition equipment on three of the four units. Mystic Station also undertook an extensive opacity monitoring and testing program for all four units to help determine if additional compliance measures are needed. Pursuant to the requirements of the Order, the subsidiary switched three of the four units to a lower sulfur fuel oil by September 1, 2002. Mystic has also entered into a consent decree with the EPA and the Department of Justice for the payment of civil penalties, the net discounted cost of which is approximately \$4 million. In March 2004, the consent decree was approved by the United States District Court of the District of Massachusetts. The consent decree resolves the civil penalty case.

*Oyster Creek.* On April 7, 2004, AmerGen entered into a settlement with the State of New Jersey relating to an environmental incident on September 23, 2002 at Oyster Creek. The incident resulted in a fishkill from heated water discharged from the plant. The State alleged that the plant had violated its water discharge permit. On April 7, 2004, AmerGen entered into two separate agreements with the State of New Jersey to settle all claims without any admission of liability. The first settlement resolved claims by the New Jersey Department of Environmental Protection contained in an Administrative Order and Notice of Civil Administrative Penalty Assessment dated December 11, 2002. In that settlement, AmerGen agreed to pay a civil penalty to the State of New Jersey of \$190,000 and natural resource damages of \$183,000 to the New Jersey Hazardous Discharge Site Cleanup Fund. In addition, AmerGen agreed to make contributions totaling \$127,000 to two environmental organizations to fund environmental projects in the community near the plant. The second settlement agreement is between AmerGen and the New Jersey Division of Criminal Justice,

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Environmental Crimes Bureau. Pursuant to that agreement, AmerGen agreed to pay a \$250,000 fine to the New Jersey Clean Water Enforcement Fund and an additional \$250,000 contribution to an environmental organization in the community near the plant.

*Exelon, ComEd, PECO and Generation*

Exelon, ComEd, PECO and Generation are involved in various other litigation matters that are being defended and handled in the ordinary course of business, and Exelon, ComEd, PECO and Generation maintain accruals for such costs that are probable of being incurred and subject to reasonable estimation. The ultimate outcomes of such matters, as well as the matters discussed above, are uncertain and may have a material adverse effect on their respective financial condition, results of operations or cash flows.

***Credit Contingencies***

*Dynegy.* Generation is a counterparty to Dynegy, Inc. (Dynegy) in various energy transactions. The credit ratings of Dynegy are below investment grade. As of March 31, 2004, Generation has credit risk associated with Dynegy through Generation's investment in Sithe. Sithe is a 100% owner of the Independence generating station, a 1,028-MW gas-fired facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of March 31, 2004, Generation consolidated the assets and liabilities of Sithe in accordance with the provisions of FIN No. 46-R. As a result, Generation has recorded an asset of \$156 million on its Consolidated Balance Sheets related to the fair market value of the financial swap agreement with Dynegy that is marked-to-market under the terms of SFAS No. 133, "Accounting for Derivatives and Hedging Activities." If Dynegy were unable to fulfill the terms of this agreement, Generation would be required to impair this financial swap asset. Exelon estimates, as a 50% owner of Sithe, that the impairment would result in an after-tax reduction of its net income of approximately \$28 million.

In addition to the impairment of the financial swap asset, if Dynegy were unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation would likely incur a further impairment associated with the Independence plant. Depending upon the timing of Dynegy's failure to fulfill its obligations and the outcome of any restructuring initiatives, Generation could realize an after-tax charge of up to \$50 million. In the event of a sale of Generation's investment in Sithe to a third party, proceeds from the sale could be negatively affected by up to \$84 million, which would represent an after-tax loss of up to \$50 million. Additionally, the future economic value of AmerGen's purchased power arrangement with Illinois Power Company (Illinois Power), a subsidiary of Dynegy, could be affected by events related to Dynegy's financial condition. In February 2004, Dynegy announced an agreement to sell Illinois Power to a third party, which, upon closing of the transaction, would reduce Generation's credit risk associated with Dynegy.

***Income Tax Refund Claims***

ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the Internal Revenue Service (IRS) and have made refundable prepayments of \$11 million and \$5 million to the tax consultant, respectively. The fees for these agreements are contingent upon a successful outcome and are based upon a percentage of the refunds to be recovered from the IRS, if any. As such, ultimate net cash outflows to ComEd and PECO related to these agreements will either be positive or neutral depending upon the outcome of the refund claim with the IRS. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. ComEd's tax benefits for periods prior to the merger of Exelon, Unicom Corporation and PECO

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on October 20, 2000 (Merger) would be recorded as a reduction of goodwill pursuant to a reallocation of the Merger purchase price. ComEd and PECO cannot predict the timing of the final resolution of these refund claims.

**Derivatives**

PETT has entered into floating-to-fixed interest-rate swaps to manage interest rate exposure associated with the floating-rate series of transition bonds issued to securitize PECO's stranded cost recovery. These interest-rate swaps were designated as cash-flow hedges. These interest-rate swaps had an aggregate fair market value exposure of \$6 million and \$11 million at March 31, 2004 and December 31, 2003, respectively. As of December 31, 2003, PETT, a wholly owned subsidiary, was deconsolidated from the financial statements of PECO pursuant to the adoption of FIN No. 46-R.

**14. Supplemental Financial Information (Exelon, ComEd and PECO)**

The following tables provide additional information regarding the regulatory assets and liabilities of ComEd and PECO:

ComEd	March 31, 2004	December 31, 2003
<b>Regulatory Assets (Liabilities)</b>		
Nuclear decommissioning	\$(1,227)	\$(1,183)
Removal costs	(985)	(973)
Recoverable transition costs	120	131
Reacquired debt costs and interest-rate swap settlements	168	172
Deferred income taxes	(61)	(61)
Other	25	23
Total	\$(1,960)	\$(1,891)
<hr/>		
PECO	March 31, 2004	December 31, 2003
<b>Regulatory Assets (Liabilities)</b>		
Competitive transition charge	\$4,215	\$4,303
Deferred income taxes	768	762
Non-pension postretirement benefits	57	58
Reacquired debt costs	46	49
MGP regulatory asset (see Note 13 — Commitments and Contingencies)	34	34
U.S. Department of Energy facility decommissioning	24	26
Nuclear decommissioning	(40)	(12)
Other	14	6
Long-term regulatory assets	5,118	5,226
Deferred energy costs (current asset)	51	81
Total	\$5,169	\$5,307



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The following tables provide supplemental balance sheet information as of March 31, 2004 and December 31, 2003:

	March 31, 2004			
	Exelon	ComEd	PECO	Generation
Property, plant and equipment:				
Accumulated depreciation	\$6,221	\$809	\$2,078	\$3,224
Accounts receivable:				
Allowance for uncollectible accounts	105	16	65	18
	December 31, 2003			
	Exelon	ComEd	PECO	Generation
Property, plant and equipment:				
Accumulated depreciation	\$6,948	\$771	\$2,048	\$4,025
Accounts receivable:				
Allowance for uncollectible accounts	110	16	72	14

**15. Segment Information (Exelon, ComEd, PECO and Generation)**

Exelon operates in three business segments: Energy Delivery (ComEd and PECO), Generation and Enterprises. Exelon evaluates the performance of its business segments on the basis of net income.

ComEd, PECO and Generation each operate in a single business segment; as such, no separate segment information is provided for these registrants.

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Exelon's segment information for the three months ended March 31, 2004 and 2003 and at March 31, 2004 and December 31, 2003 is as follows:

	Energy Delivery	Generation	Enterprises	Corporate and Intersegment Eliminations	Consolidated
<b>Total revenues(a):</b>					
2004	\$ 2,575	\$ 1,953	\$ 90	\$ (896)	\$ 3,722
2003	2,642	2,203(b)	250(b)	(1,021)	4,074
<b>Intersegment revenues:</b>					
2004	\$ 15	\$ 879	\$ 4	\$ (898)	\$ —
2003	16	993	13(b)	(1,022)	—
<b>Income (loss) before income taxes and cumulative effect of changes in accounting principles:</b>					
2004	\$ 497	\$ 113	\$ (25)	\$ (62)	\$ 523
2003	517	(89)(b)	(14)(b)	(17)	397
<b>Income taxes:</b>					
2004	\$ 185	\$ 46	\$ (9)	\$ (73)	\$ 149
2003	192	(27)(b)	(7)(b)	(10)	148
<b>Cumulative effect of change in accounting principle:</b>					
2004	\$ —	\$ 32	\$ —	\$ —	\$ 32
2003	5	108	(1)	—	112
<b>Net income (loss):</b>					
2004	\$ 312	\$ 99	\$ (16)	\$ 11	\$ 406
2003	330	46(b)	(8)(b)	(7)	361
<b>Total assets:</b>					
March 31, 2004	\$28,306	\$16,563(c)	\$689	\$(1,999)	\$43,559
December 31, 2003	28,355	14,868(b)	727(b)	(1,916)	42,034

- (a) \$62 million in utility taxes is included in the revenues and expenses for the three months ended March 31, 2004 and 2003 for ComEd. \$50 million and \$51 million in utility taxes are included in the revenues and expenses for the three months ended March 31, 2004 and 2003, respectively, for PECO.
- (b) Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation. Segment information for the three months ended March 31, 2003 and as of December 31, 2003 included in the table above has been adjusted to reflect Exelon Energy Company as part of the Generation segment. Exelon Energy Company's total assets as of December 31, 2003 were \$104 million and for the three months ended March 31, 2003, Exelon Energy Company reported the following:
- |                                   |         |                       |       |
|-----------------------------------|---------|-----------------------|-------|
| Total revenues                    | \$330   | Intersegment revenues | \$ 6  |
| Income (loss) before income taxes | \$ (16) | Income taxes          | \$(6) |
| Net income (loss)                 | \$ (10) |                       |       |
- (c) Includes \$1,503 million of the total assets of Sithe consolidated on March 31, 2004 under the provisions of FIN No. 46-R. See Note 4 — Sithe for further information regarding the consolidation of Sithe.

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**16. Related-Party Transactions (Exelon, ComEd, PECO and Generation)**

*Exelon and ComEd*

Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Funding, LLC and ComEd Transitional Funding Trust were deconsolidated from the financial statements of Exelon and ComEd in conjunction with the adoption of FIN No. 46-R. Prior periods were not restated in accordance with FIN No. 46-R.

The financial statements of Exelon and ComEd include related-party transactions with its unconsolidated affiliates as reflected in the tables below.

	For the Three Months Ended March 31,	
	2004	2003
Interest expense to affiliates		
ComEd Transitional Funding Trust	\$ 24	\$ —
ComEd Financing II	3	—
ComEd Financing III	3	—
Equity in losses from unconsolidated affiliates		
ComEd Funding LLC	(3)	—
	March 31, 2004	December 31, 2003
Receivables from affiliates (current)		
ComEd Transitional Funding Trust	\$ 11	\$ 9
Investment in affiliates		
ComEd Funding, LLC	42	45
ComEd Financing II	8	8
ComEd Financing III	6	6
Receivable from affiliates (noncurrent)		
ComEd Transitional Funding Trust	9	9
Payables to affiliates (current)		
ComEd Financing II	3	6
ComEd Financing III	—	4
Long-term debt to affiliates (including due within one year)		
ComEd Transitional Funding Trust	1,583	1,676
ComEd Financing II	155	155
ComEd Financing III	206	206

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In addition to the transactions described above, ComEd's financial statements include related-party transactions as reflected in the tables below.

	For the Three Months Ended March 31,	
	2004	2003
Operating revenues from affiliates		
Generation(a)	\$ 10	\$ 11
Enterprises(a)	—	2
Other	1	—
Purchased power from affiliate		
PPA with Generation(b)	530	572
Operations & maintenance from affiliates		
BSC(c)	44	27
Enterprises(d, e)	4	3
Interest income from affiliates		
UII(f)	4	6
Exelon intercompany money pool(j)	1	—
Other	1	1
Capitalized costs		
BSC(c)	2	1
Enterprises(e)	—	6
Cash dividends paid to parent	103	120

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	March 31, 2004	December 31, 2003
Receivables from affiliates (current)		
UII(f)	\$ 4	\$ 3
PECO(h)	1	6
Exelon intercompany money pool(j)	226	405
Other	7	5
Receivables from affiliates (noncurrent)		
UII(f)	1,071	1,071
Generation(k)	1,227	1,183
Other	3	8
Payables to affiliates (current)		
Generation decommissioning(g)	11	11
Generation(a, b)	152	171
BSC(c)	22	13
Other	—	2
Payables to affiliates (noncurrent)		
Generation decommissioning(g)	22	22
Other	6	6
Shareholders' equity — receivable from parent(i)	219	250

- (a) ComEd provides electric, transmission and other ancillary services to Generation and Enterprises.
- (b) Effective January 1, 2001, ComEd entered into a PPA with Generation.
- (c) ComEd receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. Additionally in 2004, due to the centralization of certain functions, certain employees were transferred from ComEd to BSC. As a result, ComEd now receives additional services from BSC including planning and engineering of delivery systems, management of construction, maintenance and operations of the transmission and delivery systems and management of other support services. A portion of such services, provided at cost including applicable overhead, is capitalized.
- (d) ComEd has contracted with Exelon Services (an Enterprises company) to provide energy conservation services to ComEd customers.
- (e) ComEd received substation and transmission engineering and construction services under contracts with InfraSource, Inc. (InfraSource). A portion of such services is capitalized. Exelon sold InfraSource in September 2003.
- (f) ComEd has a note and interest receivable with a variable rate of the one month forward LIBOR rate plus 50 basis points from Unicom Investments Inc. (UII) relating to the December 1999 fossil plant sale. This note matures in December 2011.
- (g) ComEd has a short-term and long-term payable to Generation, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation.
- (h) In 2004, ComEd's receivable from PECO was related to PECO's share of a joint invoice paid by ComEd. In 2003, ComEd provided hurricane restoration assistance to PECO.

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- (i) ComEd has a non-interest bearing receivable from Exelon related to a corporate restructuring in 2001. The receivable is expected to be settled over the years 2004 through 2008.
- (j) ComEd participates in Exelon's intercompany money pool. ComEd earns interest on its investment in the money pool at a market rate of interest.
- (k) ComEd has a receivable from Generation related to a regulatory liability as a result of the adoption of SFAS No. 143.

***Exelon and PECO***

Effective July 1, 2003, PECO Trust IV, a financing subsidiary created in May 2003, was deconsolidated from the financial statements of Exelon and PECO in conjunction with the adoption of FIN No. 46. Additionally, effective December 31, 2003, PECO Trust III and the PETT were deconsolidated from the financial statements of Exelon and PECO in conjunction with the adoption of FIN No. 46-R. Prior periods were not restated.

The financial statements of Exelon and PECO reflect related-party transactions with unconsolidated financing subsidiaries as reflected in the tables below.

	For the Three Months Ended March 31,	
	2004	2003
Operating revenues from affiliate		
PETT(a)	\$ 2	\$ —
Interest expense to affiliates		
PETT	60	—
PECO Trust III	2	—
PECO Trust IV	1	—
	<b>March 31, 2004</b>	<b>December 31, 2003</b>
Investment in affiliates		
PETT	\$ 100	\$ 104
PECO Energy Capital Corp	16	16
PECO Trust IV	3	3
Receivables from affiliates (non-current)		
PECO Trust IV	1	1
Payables to affiliates		
PECO Trust III	12	10
PECO Trust IV	2	—
PECO Energy Capital Corp	—	1
Long-term debt to affiliates (including due within one year)		
PETT	3,761	3,849
PECO Trust III	81	81
PECO Trust IV	103	103

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- (a) PECO received a monthly service fee from PETT based on a percentage of the outstanding balance of all series of transition bonds.

In addition to the transactions described above, PECO's financial statements include related-party transactions as reflected in the tables below.

	For the Three Months Ended March 31,	
	2004	2003
Operating revenues from affiliate		
Generation(a)	\$ 2	\$ 3
Purchased power from affiliate		
Generation(b)	349	357
Operating and maintenance from affiliates		
BSC(c)	23	10
Enterprises(d)	—	2
Capitalized costs		
Enterprises(d)	—	6
BSC(c)	—	3
Cash dividends paid to parent	90	89
	March 31, 2004	December 31, 2003
Receivable from affiliate (noncurrent)		
Generation decommissioning(e)	\$ 40	\$ 12
Payables to affiliates (current)		
Generation(b)	110	115
BSC(c)	18	15
ComEd(f)	1	6
Other	1	3
Shareholder's equity — receivable from parent(g)	1,588	1,623

- (a) PECO provides energy to Generation for Generation's own use.
- (b) Effective January 1, 2001, PECO entered into a PPA with Generation.
- (c) PECO receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. Additionally in 2004, due to the centralization of certain functions, certain employees were transferred from PECO to BSC. As a result, PECO now receives additional services from BSC including planning and engineering of delivery systems, management of construction, maintenance and operations of the transmission and delivery systems and management of other support services. Such services are provided at cost, including applicable overhead. Some of these costs are capitalized.
- (d) PECO receives services from Enterprises for construction, which are capitalized, and the deployment of automated meter reading technology, which is expensed.

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- (e) PECO has a receivable from Generation related to a regulatory liability as a result of the adoption of SFAS No. 143.
- (f) In 2004, PECO's payable to ComEd was related to PECO's share of a joint invoice paid by ComEd. In 2003, PECO received relief from ComEd workers during Hurricane Isabel.
- (g) PECO has a non-interest bearing receivable from Exelon related to the 2001 corporate restructuring. The receivable is expected to be settled over the years 2004 through 2010.

***Exelon and Generation***

The financial statements of Exelon and Generation reflect related-party transactions with unconsolidated affiliates as reflected in the tables below. Generation accounted for its investment in AmerGen as an equity method investment prior to the acquisition of British Energy's 50% interest in December 2003 and its investment in Sithe as an equity method investment prior to its consolidation as of March 31, 2004. Additionally, effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation.

	For the Three Months Ended March 31,	
	2004	2003
Operating revenues from affiliates		
ComEd(a)	\$530	\$572
PECO(a)	349	357
Exelon Energy Company(b)	—	64
Purchased power from affiliates		
AmerGen(c)	—	67
ComEd(a)	8	7
Exelon Energy Company(b)	—	6
Operating and maintenance from affiliates		
Sithe(d)	—	4
ComEd(a)	2	4
PECO(a)	2	3
BSC(e)	61	35
Interest expense to affiliates		
Sithe(d)	—	3
Exelon(f)	—	1
Exelon intercompany money pool(f)	1	—
Services provided to affiliates		
AmerGen(c)	—	17



**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	March 31, 2004	December 31, 2003
Receivables from affiliates		
ComEd(a)	\$ 152	\$ 171
ComEd decommissioning(g)	11	11
PECO(a)	110	115
BSC(e)	—	3
Exelon Energy Company(b)	—	18
Sithe(d)	—	3
Other	11	8
Note receivable from affiliate		
Note receivable from Sithe(d)	—	92
Other	1	—
Long-term receivable from affiliate		
ComEd decommissioning(g)	22	22
Payables to affiliates		
Exelon(f)	—	1
Enterprises	9	—
BSC(e)	36	—
Other	17	—
Payables to affiliates (non-current)		
ComEd decommissioning(h)	1,227	1,183
PECO decommissioning(h)	40	12
Notes payable to affiliates		
Exelon(f)	—	115
Exelon intercompany money pool(f)	226	301
Sithe(d)	—	90

- (a) Effective January 1, 2001, Generation entered into PPAs with ComEd and PECO. Generation purchases transmission and ancillary services from ComEd and buys power from PECO for Generation's own use. In order to facilitate payment processing, ComEd processes certain invoice payments on behalf of Generation.
- (b) Generation sells power to Exelon Energy Company and buys back excess power. Prior to the transfer of Exelon Energy Company's assets to Generation from Enterprises effective January 1, 2004, Exelon Energy Company was an intercompany affiliate of Generation.
- (c) Prior to Generation's purchase of British Energy's 50% interest in AmerGen in December 2003, AmerGen was an unconsolidated affiliate of Exelon and Generation and was considered to be a related party of Exelon and Generation. Generation entered into PPAs dated June 26, 2003, December 18, 2001 and November 22, 1999 with AmerGen. Under the 2003 PPA, Generation agreed to purchase from AmerGen all the energy from Oyster Creek through April 9, 2009. Under the 2001 PPA, Generation agreed to purchase from AmerGen all the energy from TMI from January 1, 2002 through December 31, 2014. Under the 1999 PPA, Generation agreed to purchase from AmerGen all of the residual energy

**EXELON CORPORATION AND SUBSIDIARY COMPANIES  
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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**

**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

from Clinton through December 31, 2004. Currently, the residual output is approximately 31% of the total output of Clinton. Under a service agreement dated March 1, 1999, Generation provides AmerGen with certain operation and support services to the nuclear facilities owned by AmerGen. This service agreement has an indefinite term and may be terminated by Generation or AmerGen with 90 days notice. Generation is compensated for these services at cost.

- (d) Under a service agreement dated December 18, 2000, Sithe provides Generation certain fuel and project development services. Sithe is compensated for these services at cost. In December 2003, Sithe received letter of credit proceeds of \$3 million, which Generation was billed on behalf of Sithe. Under the terms of the agreement to acquire Exelon New England dated November 1, 2002, Generation issued a note Sithe which was subsequently modified and increased to \$536 million. During 2003, Generation repaid \$446 million of this note. In the first quarter of 2004, Generation repaid \$27 million prior to consolidation of Sithe in accordance with the provisions of FIN No. 46-R. The balance of the note is to be paid on the earlier of December 1, 2004, certain Sithe liquidity requirements, or upon a change of control of Generation. The note bears interest at the rate equal to LIBOR plus 0.875%. In connection with a series of transactions in November 2003 that restructured the ownership of Sithe (see Note 4 — Sithe for additional information), Generation received a \$92 million note receivable from EXRES SHC, Inc., which holds the common stock of Sithe. Generation owns 50% of EXRES SHC, Inc and consolidated its investment pursuant to FIN No. 46-R effective March 31, 2004. Prior to the consolidation of Sithe in connection with FIN No. 46-R, Sithe was an unconsolidated affiliate of Exelon and Generation and was considered to be a related party of Exelon and Generation.
- (e) Generation receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. Such services are provided at cost, including applicable overhead. Some third party reimbursements due Generation are recovered through BSC.
- (f) Represents the outstanding balance of amounts borrowed under the intercompany money pool and other short-term obligations payable to Exelon. In order to facilitate payment processing, Exelon processes certain invoice payments on behalf of Generation.
- (g) Generation has a short-term and a long-term receivable from ComEd, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation resulting from the 2001 corporate restructuring.
- (h) Generation has a long-term payable to ComEd and PECO as a result of the adoption of SFAS No. 143.

**17. Subsequent Events (Exelon, ComEd, PECO and Generation)**

In April 2004, Enterprises signed an agreement to sell its investment in PECO TelCove, a communications joint venture, for estimated sales proceeds of \$49 million. The agreement to sell is subject to customary closing conditions and various regulatory approvals and is expected to close during the second quarter of 2004.

***ComEd***

ComEd had entered into interest-rate swaps to effectively convert \$485 million in fixed-rate debt to floating-rate debt. These swaps had been designated as fair-value hedges, as defined by SFAS No. 133. In April 2004, ComEd settled these swaps for net proceeds of approximately \$32 million. The proceeds will be amortized as a reduction to interest expense over the remaining life of the related debt.

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**CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***PECO***

On April 15, 2004, PECO redeemed \$75 million of 6 3/8% First and Refunding Mortgage Bonds due August 15, 2005 at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption. On April 23, 2004, PECO issued \$75 million of 5.90% First and Refunding Mortgage Bonds due 2034, the proceeds of which will be used to finance the cost of the first mortgage bonds that were redeemed on April 15, 2004. In connection with the issuance, during March 2004 PECO entered into a forward-starting interest rate swap in the aggregate amount of \$75 million which settled for net proceeds of \$5 million in April 2004 and will be amortized over the life of the debt issuance.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### General

Exelon Corporation (Exelon), a registered public utility holding company, through its subsidiaries, operates in three business segments:

- *Energy Delivery*, whose businesses include the regulated sale of electricity and distribution and transmission services by Commonwealth Edison Company (ComEd) in northern Illinois and PECO Energy Company (PECO) in southeastern Pennsylvania and the sale of natural gas and distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia.
- *Generation*, consisting of Exelon Generation Company, LLC's (Generation) owned and contracted for electric generating facilities, energy marketing operations, a 50% interest in EXRES SHC, Inc., the holding company of Sithe Energies, Inc. and its subsidiaries, hereafter referred to as Sithe, and, effective January 1, 2004, the competitive retail sales business of Exelon Energy Company.
- *Enterprises*, consisting primarily of the energy services business of Exelon Services, Inc. (Exelon Services), the district cooling business of Exelon Thermal Holdings, Inc. (Thermal), the electrical contracting business of F & M Holdings, LLC, a communications joint venture, and other investments weighted towards the communications, energy services and retail services industries. Effective January 1, 2004, the competitive retail sales business of Exelon Energy Company became part of Generation.

See Note 15 of the Condensed Combined Notes to Consolidated Financial Statements for further segment information. Exelon corporate operations, through its business services subsidiary Exelon Business Services Company (BSC), provide the business segments a variety of support services including legal, human resources, financial, information technology, supply management and corporate governance services. Additionally in 2004, due to the centralization of certain functions, certain employees were transferred from ComEd and PECO to BSC. As a result, ComEd and PECO now receive additional services from BSC including planning and engineering of delivery systems, management of construction, maintenance and operations of the transmission and delivery systems and management of other support services. These costs are allocated to the business segments. Additionally, the results of Exelon's corporate operations include costs for strategic long-term planning, certain governmental affairs, and interest costs and income from various investment and financing activities.

### Critical Accounting Policies and Estimates

Management of each of the registrants makes a number of significant estimates, assumptions and judgments in the preparation of its financial statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in the 2003 Form 10-K for a discussion of the estimates and judgments necessary in the registrants' accounting for derivative instruments, regulatory assets and liabilities, nuclear decommissioning, depreciable lives of property, plant and equipment, asset impairments, severance accounting, defined benefit pension and other postretirement welfare benefits, taxation, unbilled energy revenues and environmental costs. Set forth below is an update to the 2003 Form 10-K.

#### *Accounting for Ownership Interests in Variable Interest Entities (Exelon and Generation)*

Exelon, through Generation, has a 50% interest in Sithe, and in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN No. 46-R), Exelon and Generation consolidated Sithe within their financial statements as of March 31, 2004. The determination that Sithe qualified as a variable interest entity and that Generation was the primary beneficiary under FIN No. 46-R required analysis of the economic benefits accruing to all parties pursuant to their ownership interests supplemented by management's judgment. Sithe's

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total assets and total liabilities as of March 31, 2004 were \$1,503 million and \$1,399 million, respectively. As required by FIN No. 46-R, upon the occurrence of a future triggering event, such as a change in ownership, management will reassess its investment in Sithe to determine if Generation continues to qualify as the primary beneficiary. If management determines in a future period that Sithe no longer qualifies to be consolidated within the financial statements of Exelon and Generation pursuant to FIN No. 46-R, this determination could have a significant impact on the Consolidated Balance Sheets of Exelon and Generation and classifications within their Consolidated Statements of Income and Comprehensive Income. The consolidation of Sithe did not have an impact on Exelon's and Generation's income before cumulative effect of changes in accounting principles for the three months ended March 31, 2004, and Exelon and Generation do not anticipate that the consolidation will have a significant impact on net income in future periods.

In addition to Sithe, management reviewed other entities with which Exelon and its subsidiaries have business relationships to determine if those entities were variable interest entities that required consolidation under FIN No. 46-R and concluded that those entities should not be consolidated within Exelon's financial statements. Had management determined that consolidation of one or more of these entities was required, this determination could have had an impact on the consolidated financial statements.

### **New Accounting Pronouncements**

See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for discussion of new accounting pronouncements.

## EXELON CORPORATION

### Executive Summary

*Financial Results.* Exelon's diluted earnings per average common share increased by 10% for the three months ended March 31, 2004 as compared to the same period in 2003, primarily as a result of an increase in net income at Generation and favorable tax effects from investments in synthetic fuel producing facilities, partially offset by a decrease in net income at Energy Delivery. The increase in Generation's net income reflects a 2003 impairment charge of \$200 million (before income taxes) related to Generation's investment in Sithe and an increase in the first quarter of 2004 in revenues net of purchased power and fuel expense, partially offset by increased operating and maintenance expense primarily resulting from the acquisition of AmerGen in December 2003. The net income of Energy Delivery was unfavorably affected by a decrease in revenues net of purchased power and fuel expense and increased depreciation and amortization expense, partially offset by reduced operating and maintenance expense and interest expense. In the first quarter of 2004, Exelon recorded an after-tax gain of \$32 million in accordance with FIN No. 46-R. In the first quarter of 2003, Exelon recorded an after-tax gain of \$112 million upon the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Asset Retirement Obligations" (SFAS No. 143).

*The Exelon Way.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Exelon — Executive Summary" in the 2003 Form 10-K for a discussion of Exelon's implementation of The Exelon Way.

*Investment Strategy.* Exelon continued to follow a disciplined approach in investing to maximize the earnings and cash flows from its assets and businesses and to divest those that do not meet its goals. Highlights in the first quarter of 2004 included:

- On February 23, 2004, Generation and the lenders under the Boston Generating, LLC (Boston Generating) \$1.25 billion credit facility (Boston Generating Facility) entered into a settlement that will result in the sale of Boston Generating, which owns the companies that own the Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, and the transfer of responsibility for plant operations and power marketing activities to a special purpose entity owned by the lenders. Exelon also settled certain litigation associated with the projects. Upon entering into the sale agreement with the lenders, the assets and liabilities of Boston Generating were classified as held for sale within Exelon's Consolidated Balance Sheet.
- Exelon continued to execute its divestiture strategy for Enterprises by selling three units of Exelon Services during the first quarter of 2004 for estimated sales proceeds of \$3 million plus existing working capital and entering into an agreement in April 2004 to sell its investment in PECO TelCove, a communications joint venture, for estimated sales proceeds of \$49 million. Exelon expects to close on the sale of the Chicago business of Exelon Thermal during the second quarter of 2004 and the Aladdin thermal facility during the second half of 2004.

*Financing Activities.* Exelon repaid approximately \$181 million of transition trust notes and \$182 million of long-term debt, resulting in expected annual interest savings of \$23 million. Exelon met all of its capital resource commitments with internally generated cash and expects to do so in the foreseeable future, absent new acquisitions. In January 2004, Exelon announced a 10% increase in its quarterly dividend on its common stock, from \$0.50 to \$0.55 per share, and approved a 2-for-1 stock split of its common stock. The record date for the stock split was April 19, 2004 and the distribution date will be May 5, 2004.

*Operations.* On March 18, 2004, the Federal Energy Regulatory Commission (FERC) approved ComEd's plan to complete the integration of its transmission facilities into PJM Interconnection (PJM) subject to the North American Electric Regulatory Commission (NERC) approval of PJM and Midwest ISO reliability plans to assure no adverse impacts. The NERC granted the required approval on April 2, 2004. On April 27, 2004, the FERC issued its order approving ComEd's application to fully integrate into PJM on May 1, 2004. ComEd intends to accept the conditions in the FERC order and expects full integration to occur on that date. PECO and ComEd's membership in PJM supports Exelon's commitment to competitive wholesale electric markets and will provide Exelon the benefits of more transparent, liquid and

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competitive markets for the sale and purchase of electricity. Upon joining PJM, ComEd will begin to incur incremental administrative fees, which are expected to approximate \$30 million annually. However, Exelon believes such costs will ultimately be more than offset by the benefits of full access to a wholesale competitive marketplace, but changes in market dynamics could affect the ultimate financial impact to Exelon.

Generation's nuclear fleet achieved a 90.5% capacity factor in the first quarter of 2004 compared to 94.4% in the first quarter of 2003 primarily as a result of increased outage days.

*Outlook for the Remainder of 2004 and Beyond.* Exelon's outlook for the remainder of 2004 is consistent with the discussion within "Management's Discussion and Analysis of Financial Condition and Results of Operations — Exelon — Executive Summary" in the 2003 Form 10-K.

## Results of Operations

### *Three Months Ended March 31, 2004 Compared To Three Months Ended March 31, 2003*

	2004	2003	Variance	% Change
Operating revenues	\$3,722	\$4,074	\$(352)	(8.6)%
Purchased power and fuel expense	1,398	1,737	(339)	(19.5)%
Operating and maintenance expense	1,115	1,109	6	0.5%
Operating income	716	757	(41)	(5.4)%
Other income and deductions	(193)	(360)	167	(46.4)%
Income before income taxes and cumulative effect of changes in accounting principles	523	397	126	31.7%
Income before cumulative effect of changes in accounting principles	374	249	125	50.2%
Cumulative effect of changes in accounting principles	32	112	(80)	(71.4)%
Net income	406	361	45	12.5%
Diluted earnings per share	1.22	1.11	0.11	9.9%

**Operating Revenues.** Operating revenues decreased for the three months ended March 31, 2004 as compared to the same period in 2003 primarily due to decreased revenues at Enterprises due to the sale of the majority of the businesses of InfraSource, Inc. (InfraSource) during the third quarter of 2003, decreased competitive transition charge (CTC) collections at ComEd and Generation's adoption of Emerging Issues Task Force (EITF) Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities'" (EITF 03-11) in the first quarter of 2004 that changed the presentation of certain power transactions and decreased operating revenues by \$213 million. The adoption of EITF 03-11 had no impact on net income. See further discussion of operating revenues by segment below.

**Purchased Power and Fuel Expense.** Purchased power and fuel expense decreased during the three months ended March 31, 2004 as compared to the same period in 2003 primarily due to Generation's adoption of EITF 03-11 during 2004 that changed the presentation of certain power transactions and resulted in a decrease in purchased power expense and fuel expense of \$206 million and \$7 million, respectively. In addition, purchased power decreased due to the Generation's acquisition of the remaining 50% of AmerGen, which was only partially offset by an increase in fuel expense. Purchased power represented 23% of Generation's total supply for the three months ended March 31, 2004 compared to 37% for the same period in 2003. See further discussion of purchased power and fuel expense by segment below.

**Operating and Maintenance Expense.** Operating and maintenance expense decreased slightly for the three months ended March 31, 2004 as compared to the same period in 2003 primarily due to decreased expenses at Enterprises due to the sale of the majority of the businesses of InfraSource during the third quarter of 2003 and decreased expenses at Energy Delivery due to a charge recorded in 2003 related to an

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agreement with various Illinois retail market participants and other interested parties, partially offset by increased expenses at Generation due to the acquisition of the remaining 50% of AmerGen, generating assets placed into service after the first quarter of 2003 and investments made in the fourth quarter of 2003 in synthetic fuel-producing facilities. See further discussion of operating and maintenance expenses by segment below.

**Operating Income.** The decrease in operating income, exclusive of the changes in operating revenues, purchased power and fuel expense and operating and maintenance expense discussed above, was primarily due to an increase of \$27 million in depreciation and amortization expense primarily at Energy Delivery and Generation, partially offset by a \$5 million decrease in taxes other than income, primarily at Energy Delivery.

**Other Income and Deductions.** Other income and deductions changed primarily due to an impairment charge of \$200 million (before income taxes) recorded during the first quarter of 2003 related to Generation's investment in Sithe. Equity in earnings of unconsolidated affiliates decreased by \$42 million due to the acquisition of the remaining 50% of AmerGen in December 2003, the deconsolidation of certain financing trusts during 2003 and investments made in the fourth quarter of 2003 in synthetic fuel-producing facilities. Interest expense and distributions on preferred securities of subsidiaries collectively decreased \$13 million, primarily due to lower outstanding debt and refinancing of existing debt at lower interest rates at Energy Delivery, partially offset by increased interest expense at Generation.

**Effective Income Tax Rate.** Exelon's effective income tax rate decreased from 37% for the three months ended March 31, 2003 to 28% for the same period in 2004, primarily due to investments made in synthetic fuel producing facilities during the fourth quarter of 2003.

**Cumulative Effect of Changes in Accounting Principles.** Net income for the three months ended March 31, 2004 reflects income of \$32 million, net of income taxes, related to the consolidation of Sithe pursuant to FIN No. 46-R which resulted from the reversal of certain guarantees on behalf of Sithe that had been recorded at Generation prior to December 31, 2003, while net income for the three months ended March 31, 2003 reflects income of \$112 million, net of income taxes, for the adoption of SFAS No. 143. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding the adoptions of FIN No. 46-R and SFAS No. 143.

### **Results of Operations by Business Segment**

Exelon evaluates its performance on a business segment basis. The comparisons of operating results and other statistical information for the three months ended March 31, 2004 and 2003 set forth below reflect intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

#### *Income (Loss) Before Cumulative Effect of Change in Accounting Principle by Business Segment*

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Energy Delivery	\$312	\$325	\$ (13)	(4.0)%
Generation	67	(52)	119	n.m.
Enterprises	(16)	(17)	1	(5.9)%
Corporate	11	(7)	18	n.m.
Total	\$374	\$249	\$125	50.2%

n.m. — not meaningful



*Net Income (Loss) by Business Segment*

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Energy Delivery	\$312	\$330	\$(18)	(5.5)%
Generation	99	56	43	76.8%
Enterprises	(16)	(18)	2	(11.1)%
Corporate	11	(7)	18	n.m.
<b>Total</b>	<b>\$406</b>	<b>\$361</b>	<b>\$ 45</b>	<b>12.5%</b>

n.m. — not meaningful

Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation. The information for the three months ended March 31, 2003 related to the Enterprises and Generation segments discussed below has not been adjusted to reflect the transfer of Exelon Energy Company from the Enterprises segment to the Generation segment. Exelon Energy Company reported the following results for the three months ended March 31, 2003:

Total revenues	\$330
Intersegment revenues	6
Income (loss) before income taxes	(16)
Income taxes (benefit)	(6)
Net income (loss)	(10)

**Results of Operations — Energy Delivery**

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Operating revenues	\$2,575	\$2,642	\$(67)	(2.5)%
Purchased power and fuel expense	1,179	1,191	(12)	(1.0)%
Operating and maintenance expense	352	400	(48)	(12.0)%
Depreciation and amortization expense	227	214	13	6.1%
Operating income	680	694	(14)	(2.0)%
Interest expense	183	196	(13)	(6.6)%
Income before income taxes and cumulative effect of a change in accounting principle	497	517	(20)	(3.9)%
Income before cumulative effect of a change in accounting principle	312	325	(13)	(4.0)%
Net income	312	330	(18)	(5.5)%

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**Operating Revenues.** The changes in Energy Delivery’s operating revenues for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Electric	Gas	Total Variance
Customer choice	\$ (82)	\$ —	\$(82)
Weather	(30)	(7)	(37)
Volume	52	(7)	45
Rate changes and mix	(57)	69	12
Other effects	(6)	1	(5)
	—	—	—
(Decrease) increase in operating revenues	\$(123)	\$ 56	\$(67)

**Customer Choice.** For the three months ended March 31, 2004 and 2003, 26% and 22%, respectively, of energy delivered to Energy Delivery’s retail customers was provided by alternative electric suppliers or under the ComEd Power Purchase Option (PPO). The decrease in electric retail revenues attributable to customer choice included a decrease in revenues of \$56 million from customers in Illinois electing to purchase energy from an alternative retail energy supplier (ARES) or ComEd’s PPO and a decrease in revenues of \$26 million from customers in Pennsylvania being assigned to or selecting an alternative electric generation supplier.

**Weather.** The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as “favorable weather conditions” because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. Energy Delivery’s electric revenues were affected by unfavorable weather conditions resulting from milder winter weather in the first quarter of 2004. Heating degree-days in the ComEd and PECO service territories were 5% lower and 3% lower, respectively, for the three months ended March 31, 2004 as compared to the same period in 2003.

Energy Delivery’s gas revenues were also affected by milder winter weather in the first quarter of 2004.

**Volume.** ComEd’s electric revenues increased as a result of higher delivery volume, exclusive of the effect of weather and customer choice, due to an increased number of customers and increased usage per customer, primarily residential and large commercial and industrial. PECO’s electric operating revenues increased as a result of a higher delivery volume, exclusive of the effect of weather and customer choice, due to an increased usage per customer across all customer classes.

**Rate Changes and Mix.** Energy Delivery’s electric revenues decreased \$42 million at ComEd primarily due to decreased average energy rates under ComEd’s PPO as a result of lower wholesale market prices. Electric revenues decreased \$15 million at PECO primarily as a result of rate mix due to changes in monthly usage patterns in all customer classes during 2004 as compared to 2003.

Energy Delivery’s gas revenues increased due to increases in rates through Pennsylvania Public Utility Commission (PUC) approved changes to the purchased gas adjustment clause that became effective March 1, 2003, December 1, 2003 and March 1, 2004. The average purchased gas cost rate per million cubic feet for the three months ended March 31, 2004 was 43% higher than the rate for the same period in 2003. PECO’s purchased gas cost rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between the actual cost of purchased gas and the amount included in rates.

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**Purchased Power and Fuel Expense.** The changes in Energy Delivery's purchased power and fuel expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Electric	Gas	Total Variance
Customer choice	\$(78)	\$ —	\$(78)
Weather	(11)	(4)	(15)
Prices	(13)	69	56
Volume	29	(7)	22
Other	2	1	3
	—	—	—
(Decrease) increase in purchased power and fuel expense	\$(71)	\$ 59	\$(12)

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

**Weather.** Energy Delivery's purchased power and fuel expense decreased due to the effect of milder winter weather for the three months ended March 31, 2004 compared to the same period in 2003.

**Prices.** Energy Delivery's purchased power decreased for electric due to a decrease in the mix of on-peak/off-peak cost of electricity at ComEd. Fuel expense for gas increased due to higher gas prices.

**Volume.** ComEd's purchased power and fuel expense increased due to increases, exclusive of the effect of weather and customer choice, in the number of customers and average usage per customer, primarily residential and large commercial and industrial customers at ComEd. PECO's electric purchased power and fuel expense increased as a result of higher delivery volume, exclusive of the effect of weather and customer choice, due to an increased usage per customer across all customer classes.

**Operating and Maintenance Expense.** The changes in operating and maintenance expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Variance
Charge recorded at ComEd in 2003(a)	\$(41)
Decreased payroll expense due to fewer employees(b)	(31)
Allowance for uncollectible accounts expense(d)	(10)
Higher corporate allocations(b,c)	28
Employee fringe benefits	8
Severance, pension and postretirement benefit costs associated with The Exelon Way	5
Other	(7)
	—
Decrease in operating and maintenance expense	\$(48)

- (a) In 2003, ComEd reached an agreement with various Illinois retail market participants and other interested parties.
- (b) Energy Delivery has fewer employees as a result of The Exelon Way terminations and restructuring initiatives.
- (c) Higher corporate allocations primarily result from payroll expenses and employee fringe benefits. To provide greater efficiencies, certain employees that provide services to ComEd and PECO were transferred to BSC, resulting in lower payroll expense at Energy Delivery but higher corporate allocations.
- (d) In 2004, PECO's uncollectible accounts expense decreased by \$8 million as a result of increased collection efforts and customer deposits.

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**Depreciation and Amortization Expense.** The increase in depreciation and amortization expense was primarily due to increased competitive transition charge amortization of \$7 million at PECO and increased depreciation of \$5 million due to capital additions across Energy Delivery.

**Interest Expense.** The reduction in interest expense was primarily due to scheduled principal payments and refinancing existing debt at lower rates.

#### Energy Delivery Operating Statistics and Revenue Detail

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

Retail Deliveries — (in gigawatthours (GWhs))(a)	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Full service(b)</b>				
Residential	9,757	10,001	(244)	(2.4)%
Small commercial & industrial	6,817	7,407	(590)	(8.0)%
Large commercial & industrial	4,962	4,966	(4)	(0.1)%
Public authorities & electric railroads	1,469	1,669	(200)	(12.0)%
Total full service	23,005	24,043	(1,038)	(4.3)%
<b>PPO (ComEd only)</b>				
Small commercial & industrial	731	793	(62)	(7.8)%
Large commercial & industrial	747	1,433	(686)	(47.9)%
Public authorities & electric railroads	434	537	(103)	(19.2)%
	1,912	2,763	(851)	(30.8)%
<b>Delivery only(c)</b>				
Residential	582	264	318	120.5%
Small commercial & industrial	2,196	1,550	646	41.7%
Large commercial & industrial	3,090	2,042	1,048	51.3%
Public authorities & electric railroads	488	282	206	73.0%
Total PPO and delivery only	6,356	4,138	2,218	53.6%
	8,268	6,901	1,367	19.8%
<b>Total retail deliveries</b>	31,273	30,944	329	1.1%

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

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

(c) Delivery only service reflects customers receiving electric generation service from an alternative energy supplier.

Electric Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Full service(a)</b>				
Residential	\$ 874	\$ 905	\$ (31)	(3.4)%
Small commercial & industrial	549	591	(42)	(7.1)%
Large commercial & industrial	330	340	(10)	(2.9)%
Public authorities & electric railroads	93	106	(13)	(12.3)%
	<u>1,846</u>	<u>1,942</u>	<u>(96)</u>	<u>(4.9)%</u>
<b>PPO (ComEd only)(b)</b>				
Small commercial & industrial	48	50	(2)	(4.0)%
Large commercial & industrial	42	72	(30)	(41.7)%
Public authorities & electric railroads	22	27	(5)	(18.5)%
	<u>112</u>	<u>149</u>	<u>(37)</u>	<u>(24.8)%</u>
<b>Delivery only(c)</b>				
Residential	42	17	25	147.1%
Small commercial & industrial	53	51	2	3.9%
Large commercial & industrial	44	54	(10)	(18.5)%
Public authorities & electric railroads	8	9	(1)	(11.1)%
	<u>147</u>	<u>131</u>	<u>16</u>	<u>12.2%</u>
Total PPO and delivery only	<u>259</u>	<u>280</u>	<u>(21)</u>	<u>(7.5)%</u>
<b>Total electric retail revenues</b>	<u>2,105</u>	<u>2,222</u>	<u>(117)</u>	<u>(5.3)%</u>
Wholesale and miscellaneous revenue(d)	<u>126</u>	<u>132</u>	<u>(6)</u>	<u>(4.5)%</u>
<b>Total electric revenue</b>	<u>\$2,231</u>	<u>\$2,354</u>	<u>\$(123)</u>	<u>(5.2)%</u>

- (a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy. PECO's tariffed rates also include a competitive transition charge.
- (b) Revenue from customers choosing ComEd's PPO includes on energy charge at market rates, transmission and distribution charges and a CTC.
- (c) Delivery only revenue reflects revenue from customers receiving electric generation service from an alternative energy supplier. Revenue from customers choosing an alternative energy supplier includes a distribution charge and a CTC. Transmission charges received from alternative energy suppliers are included in wholesale and miscellaneous revenue.
- (d) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

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

Deliveries to customers (in million cubic feet (mmcf))	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Retail sales	29,803	31,460	(1,657)	(5.3)%
Transportation	7,132	8,166	(1,034)	(12.7)%
Total	<u>36,935</u>	<u>39,626</u>	<u>(2,691)</u>	<u>(6.8)%</u>

Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Retail sales	\$328	\$273	\$ 55	20.1%
Transportation	5	5	—	—
Resales and other	11	10	1	10.0%
Total	\$344	\$288	\$ 56	19.4%

**Results of Operations — Generation**

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Operating revenues	\$1,953	\$1,879	\$ 74	3.9%
Purchased power and fuel expense	1,105	1,205	(100)	(8.3)%
Operating and maintenance expense	652	487	165	33.9%
Operating income	94	94	—	—
Income (loss) before income taxes and cumulative effect of changes in accounting principles	113	(73)	186	n.m.
Income (loss) before cumulative effect of changes in accounting principles	67	(52)	119	n.m.
Cumulative effect of changes in accounting principles	32	108	(76)	(70.4)%
Net income	99	56	43	76.8%

n.m. — not meaningful

**Operating Revenues.** The changes in Generation's operating revenues for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Variance
Retail gas revenue	\$ 176
Energy Delivery and Exelon Energy Company	(111)
Market and retail electric sales	40
Other	(31)
Increase in operating revenues	\$ 74

**Retail Gas Revenue.** Retail revenue increased \$176 million as a result of Exelon Energy Company retail operations, which were not included in Generation's financial results in 2003.

**Energy Delivery and Exelon Energy Company.** Revenue from sales to affiliates decreased primarily due to \$55 million in lower volume sales to Energy Delivery, primarily due to Energy Delivery's customers purchasing energy from alternative electric suppliers or ComEd's PPO and unfavorable weather conditions in the ComEd and PECO service territories. Price increases in the PECO region partially offset by minimal price decreases in the ComEd region resulted in an overall \$5 million increase in affiliate revenue due to price fluctuations.

As a result of Exelon Energy Company's assets and operations being transferred to Generation effective January 1, 2004, sales to Exelon Energy Company are no longer reported as affiliate revenue. Revenue from sales to Exelon Energy Company for the three months ended March 31, 2003 was \$64 million.

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*Market and Retail Electric Sales.* The changes in Generation's market and retail electric sales for the three months ended March 31, 2004 compared to the same period in 2003, consisted of the following:

	<u>Variance</u>
Effects of EITF 03-11 adoption	\$(206)
Boston Generating	117
Exelon Energy Company and AmerGen operations	78
Other operations	51
	<u>          </u>
Increase in market and retail electric sales	\$ 40
	<u>          </u>

*Other.* Revenues decreased for the three months ended March 31, 2004 as compared to the same period in 2003, primarily due to a \$10 million decrease in fuel sales which is due primarily to gas sales in 2003 to Exelon Energy Company which is consolidated in 2004, as well as decreased coal sales year over year due to the unwinding of coal contracts, and the effects of adopting EITF 03-11, which calls for fuel expense to offset revenue derived from certain fossil fuel transactions. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for additional information regarding EITF 03-11. As a result, revenues and fuel expense were lowered by \$7 million, of which \$5 million was related to Boston Generating operations.

*Purchased Power and Fuel Expense.* The changes in Generation's purchased power and fuel expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	<u>Variance</u>
Volume	\$(176)
Price	(96)
AmerGen and Exelon Energy Company	112
Midwest Generation	(23)
Boston Generating	108
Mark-to-market adjustments on hedging activity	8
Other	(33)
	<u>          </u>
Decrease in purchased power and fuel expense	\$(100)
	<u>          </u>

*Volume.* The decrease reflects the effects of adopting EITF 03-11, resulting in a decrease of \$200 million. The decrease was partially offset by a \$21 million increase in purchased power volume and a \$3 million increase due to increased generation.

*Prices.* The decrease reflects lower market prices of \$48 million and lower average fossil fuel costs used for non-Boston Generating operations of \$48 million during the three months ended March 31, 2004 as compared to the same period in 2003.

*AmerGen and Exelon Energy Company.* As result of Generation's acquisition of the remaining 50% interest in AmerGen and the transfer of Exelon Energy Company to Generation effective January 1, 2004, purchased power decreased \$62 million and fuel expense increased \$174 million. Generation recorded no related party purchased power for the quarter ended March 31, 2004. During the quarter ended March 31, 2003, Generation recorded \$68 million for purchased power from AmerGen.

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

*Boston Generating.* The Mystic 8 and 9 generating facilities began commercial operations during the second quarter of 2003, and the Fore River generating facilities began commercial operations during the third quarter of 2003. As a result, purchased power and fuel expense increased \$121 million. The increase was offset by a decrease of \$13 million related to the effects of adopting EITF 03-11.

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**Hedging Activity.** Mark-to-market losses on hedging activities were \$39 million for the three months ended March 31, 2004 compared to losses of \$31 million for the same period of 2003. Hedging activities in 2004 relating to non-Boston Generating accounted for a loss of \$37 million, and Boston Generating operations in 2004 accounted for a loss of \$2 million.

**Other.** Other decreases in purchased power and fuel were primarily due to \$21 million lower transmission expense resulting from reduced inter-region transmission and a \$4 million decrease in intercompany purchased power expense.

**Operating and Maintenance Expense.** The changes in operating and maintenance expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	<b>Variance</b>
AmerGen and Exelon Energy Company(a)	\$ 110
Refueling outage costs(b)	36
Boston Generating	20
Decommissioning accretion costs(c)	7
Co-owned facilities	5
Pension, payroll and benefit costs associated with The Exelon Way	(9)
Other	(4)
	<hr/>
Increase in operating and maintenance expense	\$165

(a) Includes refueling outage expense of \$24 million at AmerGen.

(b) Refueling outage days increased from 50 days for the three months ended March 31, 2003 to 114 days during the same period in 2004.

(c) Includes \$10 million due to AmerGen asset retirement obligation accretion.

**Depreciation and Amortization.** The increase in depreciation and amortization expense for the three months ended March 31, 2004 as compared to the same period in 2003 was primarily attributable to \$8 million of additional depreciation expense on capital additions placed in service after the first quarter of 2003, of which \$3 million of expense was related to the Boston Generating facilities. In addition, depreciation and amortization expense increased \$2 million due to increased amortization of long-term debt and capital leases.

**Effective Income Tax Rate.** The effective income tax rate was 40.6% for the three months ended March 31, 2004 compared to 28.8% for the same period in 2003. This increase was primarily attributable to the impairments recorded in 2003 related to Generation's investment in Sithe which resulted in a pre-tax loss. In addition, the rate increased due to the additional nuclear decommissioning investment income and its related taxes.

**Cumulative Effect of Changes in Accounting Principles.** Cumulative effect of changes in accounting principles recorded during the three months ended March 31, 2004 and 2003 included \$32 million, net of income taxes, recorded in 2004 related to the consolidation of Sithe pursuant to FIN No. 46-R which resulted from the reversal of certain guarantees on behalf of Sithe that had been recorded at Generation prior to December 31, 2003, and income of \$108 million, net of income taxes, recorded in 2003 related to the adoption of SFAS No. 143. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of these effects.



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Generation Operating Statistics

Generation's sales and the supply of these sales, excluding the trading portfolio, were as follows:

Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Energy Delivery and Exelon Energy Company(a)	\$ 860	\$ 965	\$(105)	(10.9)%
Market and retail electric sales(b)	884	857	27	3.2%
<b>Total energy sales revenue</b>	<b>1,744</b>	<b>1,822</b>	<b>(78)</b>	<b>(4.3)%</b>
Retail gas sales	176	—	176	n.m.
Trading portfolio	—	(1)	1	(100.0)%
Other revenue	33	58	(25)	(43.1)%
<b>Total revenue</b>	<b>\$1,953</b>	<b>\$1,879</b>	<b>\$ 74</b>	<b>3.9%</b>

(a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail electric sales.

(b) Includes retail electric sales of Exelon Energy Company in 2004.

n.m. — not meaningful

Sales (in GWhs)	Three Months Ended,		Variance	% Change
	2004 <sup>(c)</sup>	2003		
Energy Delivery and Exelon Energy Company(a)	27,464	30,594	(3,130)	(10.2)%
Market and retail electric sales(b)	23,983	23,815	168	0.7%
<b>Total sales</b>	<b>51,447</b>	<b>54,409</b>	<b>(2,962)</b>	<b>(5.4)%</b>

(a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail electric sales.

(b) Includes retail electric sales of Exelon Energy Company in 2004.

(c) Sales in 2004 do not include 5,453 GWhs, which are netted with purchased power GWhs as a result of the reclassification of certain hedging activities in accordance with EITF 03-11.

Supply Source (in GWhs)	Three Months Ended March 31,		Variance	% Change
	2004 <sup>(c)</sup>	2003		
Nuclear generation(a)	33,411	29,330	4,081	13.9%
Purchases — non-trading portfolio(b)	11,691	20,029	(8,338)	(41.6)%
Fossil and hydro generation	6,345	5,050	1,295	25.6%
<b>Total supply</b>	<b>51,447</b>	<b>54,409</b>	<b>(2,962)</b>	<b>(5.4)%</b>

(a) Excludes AmerGen in 2003. AmerGen generated 4,639 GWhs during the three months ended March 31, 2004.

(b) Includes PPAs with AmerGen, which represented 2,488 GWhs in 2003.

(c) Sales in 2004 do not include 5,453 GWhs, which are netted with purchased power GWhs as a result of the reclassification of certain hedging activities in accordance with EITF 03-11.

Trading volumes of 5,113 GWhs and 9,527 GWhs for the three months ended March 31, 2004 and 2003, respectively, are not included in the table above. The decrease in trading volume is a result of reduced proprietary trading activity.

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Generation's supply mix changed as a result of increased fossil generation due to the effect of Boston Generating's Mystic units 8 and 9 and Fore River generating facilities becoming operational in the second and third quarter of 2003, which in total account for an increase of 2,266 GWhs, and as a result of Generation's acquisition of the remaining 50% interest in AmerGen in December 2003. All of the power generated by AmerGen plants is included in nuclear generation for 2004; previously, power obtained from AmerGen facilities was treated as purchased power. Purchased power from AmerGen during the three months ended March 31, 2003 was 2,488 GWhs.

Generation's average margin and other operating data for the three months ended March 31, 2004 and 2003 were as follows:

	Three Months Ended March 31,		% Change
	2004	2003	
	(\$/MWh)		
Average revenue			
Energy Delivery and Exelon Energy Company(a)	\$31.31	\$31.54	(0.7)%
Market and retail electric sales(b)	36.86	35.99	2.4%
Total — excluding the trading portfolio	33.90	33.49	1.2%
Average supply cost(c) — excluding the trading portfolio	\$21.48	\$22.06	(2.6)%
Average margin — excluding the trading portfolio	\$12.42	\$11.43	8.7%

- (a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail sales.
- (b) Includes retail electric sales of Exelon Energy Company in 2004.
- (c) Average supply cost includes purchased power, fuel costs and PPAs with AmerGen in 2003.

Generation's average margin, excluding the trading portfolio, increased due to higher market prices as a result of increased fuel prices and decreased average supply cost due to a decrease in purchased power and increased nuclear generation.

	Three Months Ended March 31,?	
	2004	2003
Nuclear fleet capacity factor(a)	90.5%	94.4%
Nuclear fleet production cost per MWh(a)	\$14.29	\$12.80
Average purchased power cost for wholesale operations per MWh(b)	\$44.48	\$41.99

- (a) Includes AmerGen and excludes Salem, which is operated by Public Service Enterprise Group Incorporated (PSE&G).
- (b) Includes PPAs with AmerGen in 2003.

Lower nuclear capacity factors and increased nuclear production costs are primarily due to 64 additional planned refueling outage days, resulting in a \$60 million increase in planned outage costs in the three months ended March 31, 2004 as compared to the same period in 2003. There were four planned outages during the three months ended March 31, 2004, compared to two planned outages during the same period in 2003. The three months ended March 31, 2004 included five unplanned outages compared to three unplanned outages during the same period in 2003. Nuclear capacity factors were also affected by Quad Cities operating at lower than anticipated capacity levels.

The Quad Cities units have intermittently been operating at pre-Extended Power Uprate (EPU) generation levels due to performance issues with their steam dryers. Exelon is currently evaluating data to determine when the units can return to EPU output levels. There is a continued risk that the Quad Cities units will not return to EPU operating levels in the near future. There is also a risk that additional expenditures will be required on these units to allow extended operations at the EPU output levels.

**Results of Operations — Enterprises**

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Operating revenues	\$ 90	\$580	\$(490)	(84.5)%
Purchased power and fuel expense	—	339	(339)	(100.0)%
Operating and maintenance expense	106	256	(150)	(58.6)%
Depreciation and amortization expense	—	10	(10)	(100.0)%
Operating income (loss)	(20)	(27)	7	(25.9)%
Loss before income taxes and cumulative effect of change in accounting principle	(25)	(30)	5	(16.7)%
Loss before cumulative effect of change in accounting principle	(16)	(17)	1	(5.9)%
Net income (loss)	(16)	(18)	2	(11.1)%

**Operating Revenues.** The changes in Enterprises' operating revenues for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Variance
Exelon Energy Company	\$(330)
F & M Holdings, LLC(a)	(149)
Exelon Services	(11)
Decrease in operating revenues	\$(490)

(a) Includes the operations of former InfraSource businesses.

*Exelon Energy Company.* Operating revenues decreased as a result of Exelon Energy Company becoming part of Generation effective January 1, 2004.

*F & M Holdings, LLC.* Operating revenues decreased \$117 million as a result of the sale of the majority of the InfraSource businesses in the third quarter of 2003. For the remaining businesses, F & M Holdings, LLC, operating revenues decreased \$32 million as a result of the sale of certain businesses and the reduction of new business as a result of wind-down efforts.

*Exelon Services.* Operating revenues decreased \$14 million at Exelon Services due to unfavorable economic conditions in the construction market and the sale of certain Exelon Services business units. This decrease was partially offset by improved performance contracting activities of \$3 million.

**Purchased Power and Fuel Expense.** Purchased power and fuel expense decreased as a result of Exelon Energy Company becoming part of Generation effective January 1, 2004.

**Operating and Maintenance Expense.** The changes in Enterprises' operating and maintenance expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Variance
F & M Holdings, LLC(a)	\$(131)
Exelon Services	(4)
Other	(15)
Decrease in operating and maintenance expense	\$(150)

(a) Includes the operations of former InfraSource businesses.

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*F & M Holdings, LLC.* Operating and maintenance expense decreased \$111 million as a result of the sale of the majority of the InfraSource businesses in the third quarter of 2003. For the remaining businesses, F & M Holdings, LLC, operating and maintenance expense decreased \$33 million as a result of wind-down efforts for these businesses. These decreases were partially offset by increased expense of \$12 million due to margin deterioration on various construction projects.

*Exelon Services.* Operating and maintenance expense decreased \$4 million at Exelon Services due primarily to delays on mechanical construction projects resulting from poor economic conditions in the construction market and the sale of certain Exelon Services business units. This decrease was partially offset by additional costs from increased performance contracting activities of \$2 million and other asset impairments of \$2 million.

*Depreciation and Amortization.* Depreciation and amortization expense decreased primarily as a result of the sale of the majority of the InfraSource businesses in the third quarter of 2003 and property, plant and equipment classified as held for sale.

*Effective Income Tax Rate.* The effective income tax rate was 36.0% for the three months ended March 31, 2004 compared to 43.3% for the same period in 2003. The decrease in the effective tax rate was primarily attributable to impacts of state income tax adjustments in 2003.

*Divestiture of Businesses.* In the first quarter of 2004, Enterprises sold three business units of Exelon Services. Cash proceeds to Enterprises from the sales were approximately \$3 million. Enterprises recorded a net loss of \$3 million before income taxes in other income and deductions on the sale.

In December 2003, Enterprises signed an agreement to sell its Chicago business of Exelon Thermal for approximately \$135 million, subject to working capital adjustments. The agreement to sell the Chicago thermal operations is subject to customary closing conditions and approval from the City of Chicago (Chicago) and is expected to close during the second quarter of 2004. The sale of the Aladdin thermal facility is expected to close during the second half of 2004. In April 2004, Enterprises signed an agreement to sell its investment in PECO TelCove, a communications joint venture, for \$49 million. The agreement to sell is subject to customary closing conditions and various regulatory approvals and is expected to close during the second quarter of 2004.

Enterprises continues to pursue the divestiture of other businesses; however, it may be unable to successfully implement its divestiture strategy of certain businesses for a number of reasons, including an inability to locate appropriate buyers or to negotiate acceptable terms for the transactions. In addition, the amount that Enterprises may realize from a divestiture is subject to fluctuating market conditions that may contribute to pricing and other terms that are materially different than expected and could result in a loss on the sale. Timing of any divestitures may positively or negatively affect the results of operations.

### **Liquidity and Capital Resources**

Exelon's businesses are capital intensive and require considerable capital resources. These capital resources are primarily provided by internally generated cash flows from Energy Delivery's and Generation's operations. The working capital deficit at March 31, 2004 is expected to be eliminated through the anticipated continuance of positive operating cash flows and the eventual elimination of the Boston Generating debt balance (included in liabilities held for sale) upon the sale of Boston Generating. The sale of Boston Generating will be substantively a non-cash transaction, with the Boston Generating credit facility continuing as a liability of Boston Generating at the time it is sold, without recourse to Exelon or Generation. See Note 3 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of the sale of Boston Generating. When necessary, Exelon obtains funds from external sources in the capital markets and through bank borrowings. Exelon's access to external financing at reasonable terms depends on Exelon and its subsidiaries' credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Exelon no longer has access to the capital markets at reasonable terms, Exelon has access to \$1.5 billion through revolving credit facilities that it currently utilizes to support its commercial paper programs. See the Credit Issues section of Liquidity and Capital Resources for further

discussion. Exelon primarily uses its capital resources to fund capital requirements, including construction, to repay maturing debt, to pay common stock dividends, to fund its pension obligations and to invest in new and existing ventures. Future acquisitions that Exelon may undertake may require external financing, which might include issuing Exelon common stock.

### ***Cash Flows from Operating Activities***

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

Cash flows from operations have been and are expected to continue to provide a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements for the foreseeable future. Operating cash flows after 2006 could be negatively affected by changes in the rate regulatory environments of ComEd and PECO, although any effects are not expected to hinder Exelon's ability to fund its business requirements.

Cash flows from operations for the three months ended March 31, 2004 and 2003 were \$851 million and \$383 million, respectively. Changes in Exelon's cash flows from operations are generally consistent with changes in its results of operations, and further adjusted by changes in working capital in the normal course of business.

In addition to the items mentioned in Results of Operations, the following items affected Exelon's operating cash flows for the three months ended March 31, 2004 and 2003:

- Natural gas inventories and deferred natural gas costs decreased \$71 million and \$30 million, respectively, during the three months ended March 31, 2004 resulting in a \$101 million increase to operating cash flows. During 2003, a decrease in natural gas inventories of \$43 million partially offset by an increase in deferred natural gas costs of \$28 million resulted in a \$15 million increase in operating cash flow.
- An increase in required deposits for energy trading activity of \$118 million resulted from Generation exceeding its negotiated credit positions with counterparties during the three months ended March 31, 2003.
- An income tax refund of \$150 million increased cash from operations during the three months ended March 31, 2004. Income tax payments of \$137 million and interest payments of \$63 million contributed to the \$217 million use of cash for accounts payable, accrued expenses and other current liabilities during 2003.
- Discretionary tax-deductible pension plan payments were \$143 million for the three months ended March 31, 2004 compared to \$125 million for the same period in 2003. Additionally, \$22 million and \$15 million was contributed to the postretirement welfare benefit plans in the first quarter of 2004 and 2003, respectively.

Exelon expects to contribute up to approximately \$419 million to its pension plans in 2004. These contributions exclude benefit payments expected to be made directly from corporate assets. Of the \$419 million expected to be contributed to the pension plans during 2004, \$17 million is estimated to be needed to satisfy IRS minimum funding requirements.

Exelon, through its ComEd subsidiary, has taken certain tax positions, which have been disclosed to the Internal Revenue Service (IRS), to defer the tax gain on the 1999 sale of its fossil generating assets. As of March 31, 2004, deferred tax liabilities related to the fossil plant sale are reflected in Exelon's Consolidated

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Balance Sheets with the majority allocated to the Consolidated Balance Sheets of ComEd and the remainder to the Consolidated Balance Sheets of Generation. The 1999 income tax liability deferred as a result of these transactions was approximately \$1.1 billion. Changes in IRS interpretations of existing primary tax authority or challenges to ComEd's positions could have the impact of accelerating future income tax payments and increasing interest expense related to the deferred tax gain that becomes current. Any required payments could be significant to the cash flows of Exelon. Exelon's management believes Exelon's reserve for interest, which has been established in the event that such positions are not sustained, reflects the most likely probable expected outcome in accordance with SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). However, the ultimate outcome of such matters could result in additional unfavorable or favorable adjustments to the results of operations, and such adjustments could be material. Federal tax returns covering the period of the 1999 sale are currently under IRS audit. Final resolution of this matter is not anticipated for several years.

### *Cash Flows from Investing Activities*

Cash flows used in investing activities for the three months ended March 31, 2004 and 2003 were \$373 million and \$383 million, respectively. The \$10 million decrease in cash used in investing activities during the three months ended March 31, 2004 is primarily attributable to cash proceeds of \$42 million received during the three months ended March 31, 2004 from the sale of three gas turbines at Generation that were classified as assets held for sale at December 31, 2003, partially offset by an increase in capital expenditures of \$12 million and an increase in investments in nuclear decommissioning trust funds of \$21 million over amounts invested during the same period in 2003. Additionally, on March 31, 2004, Exelon consolidated the assets and liabilities of Sithe under the provisions of FIN No. 46-R which resulted in an increase in cash of \$19 million. See Note 2 and Note 4 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding the FIN No. 46-R consolidation of Sithe.

Capital expenditures by business segment for the three months ended March 31, 2004 and 2003 were as follows:

	Three Months Ended March 31,	
	2004	2003
Energy Delivery	\$226	\$239
Generation	213	175
Enterprises	—	6
Corporate and other	—	7
Total capital expenditures	\$439	\$427

Energy Delivery's capital expenditures for the three months ended March 31, 2004 reflect continuing efforts to improve the reliability of its transmission and distribution systems and capital additions to support new business and customer growth. Exelon anticipates that Energy Delivery's capital expenditures will be funded by internally generated funds, borrowings and the issuance of debt or preferred securities or capital contributions from Exelon.

Generation's capital expenditures for the three months ended March 31, 2004 reflect additions and upgrades to existing facilities (including nuclear refueling outages), nuclear fuel and increases in capacity at existing plants. Generation's capital expenditures for the three months ended March 31, 2003 reflect the construction of three Boston Generating facilities with capacity of 2,288 MWs of energy. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, Generation's borrowings or capital contributions from Exelon.

**Cash Flows from Financing Activities**

Cash flows used in financing activities for the three months ended March 31, 2004 were \$472 million compared to cash provided by financing activities for the three months ended March 31, 2003 of \$34 million. See Note 7 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding debt issuances and retirements during the three months ended March 31, 2004.

The cash dividend payments on common stock for the three months ended March 31, 2004 and 2003 were \$181 million and \$145 million, respectively. On January 27, 2004, the Exelon Board of Directors approved a 10% increase in the quarterly dividend to \$0.55 per share. Payment of future dividends is subject to approval and declaration by the Board.

**Credit Issues**

*Exelon Credit Facility.* Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by Exelon corporate holding company (Exelon Corporate) and by ComEd, PECO and Generation. Exelon Corporate participates, along with ComEd, PECO and Generation, in a \$750 million 364-day unsecured revolving credit agreement and a \$750 million three-year unsecured revolving credit agreement with a group of banks. Both revolving credit agreements are used principally to support the commercial paper programs at Exelon Corporate, ComEd, PECO and Generation and to issue letters of credit. The 364-day agreement includes a term-out option provision that allows a borrower to extend the maturity of revolving credit borrowings outstanding at the end of the 364-day period for one year. At March 31, 2004, Exelon Corporate, ComEd, PECO and Generation had the following sublimits and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

Borrower	Bank Sublimit(a)	Available Capacity(b)	Outstanding Commercial Paper
Exelon Corporate	\$550	\$529	\$ 70
ComEd	100	66	—
PECO	250	221	81
Generation	600	449	165

- (a) Sublimits under the credit agreements can change upon written notification to the bank group.
- (b) Available capacity represents primarily the bank sublimit net of outstanding letters of credit. The amount of commercial paper outstanding does not reduce the available capacity under the Exelon Credit Facility.

Interest rates on the advances under the credit facility are based on either the London Interbank Offering Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the total outstanding amounts under the agreement at the time of borrowing or prime. The maximum LIBOR adder would be 175 basis points. For the three months ended March 31, 2004, the average interest rate on notes payable was approximately 1.05%.

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

	Exelon Corporate	ComEd	PECO	Generation
Credit agreement threshold	2.65 to 1	2.25 to 1	2.25 to 1	3.25 to 1

At March 31, 2004, each of Exelon Corporate, ComEd, PECO and Generation were in compliance with the foregoing thresholds.



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*Capital Structure.* At March 31, 2004, Exelon's, ComEd's, PECO's and Generation's capital structure consisted of the following:

	<u>Exelon Consolidated</u>	<u>ComEd(a)</u>	<u>PECO(a)</u>	<u>Generation</u>
Long-term debt	40%(b)	34%	21%	53%(b)
Long-term debt to affiliates	24(c)	15(c)	61(c)	—
Common equity	35	51	16	—
Member's equity	—	—	—	41
Preferred securities	—	—	1	—
Notes payable	1	—	1	5
Minority interest	—	—	—	1

- (a) At March 31, 2004, ComEd's capital structure, excluding the deduction from shareholders' equity of the \$219 million receivable from Exelon (which amount is deducted for GAAP purposes, as reflected in the table, but is excluded from the percentages in this footnote to reflect amounts expected to be received by ComEd from Exelon to pay future taxes), consisted of 33% long-term debt, 15% long-term debt to affiliates and 52% common equity. Likewise, PECO's capital structure, excluding the deduction from shareholder's equity of the \$1.6 billion receivable from Exelon, consisted of 32% common equity, 1% notes payable, 1% preferred securities and 66% long-term debt, including long-term debt to unconsolidated affiliates.
- (b) Includes \$1.0 billion Boston Generating project debt, classified as liabilities held for sale on the Consolidated Balance Sheets, and \$1.2 billion of senior unsecured notes representing 9% and 33% of capitalization for Exelon and Generation, respectively.
- (c) Includes \$6 billion, \$2 billion and \$4 billion owed to unconsolidated affiliates of Exelon, ComEd and PECO, respectively, that qualify as special purpose entities under FIN No. 46-R. These special purpose entities were created for the sole purpose of issuing debt obligations to securitize intangible transition property and CTCs of Energy Delivery or mandatorily redeemable preferred securities. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding FIN No. 46-R.

*Boston Generating Project Debt.* Boston Generating has a \$1.25 billion credit facility (Boston Generating Facility), which was entered into primarily to finance the development and construction of the Mystic 8 and 9 and Fore River generating facilities. Approximately \$1.0 billion of debt was outstanding under the credit facility at March 31, 2004, all of which was reflected in Exelon's Consolidated Balance Sheets as a liability held for sale. The Boston Generating Facility is non-recourse to Exelon and Generation and an event of default under the Boston Generating Facility does not constitute an event of default under any other of Exelon's debt instruments or the debt instruments of Exelon's subsidiaries.

Exelon is in the process of the sale of Boston Generating, which owns the companies that own the Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities. Exelon's decision to transition out of the projects was made as a result of its evaluation of the projects and discussions with the lenders under the Boston Generating Facility. See Note 3 of the Condensed Combined Notes to Consolidated Financial Statements for information regarding the sale of Generation's ownership interest in Boston Generating to the lenders under the Boston Generating Facility.

*Intercompany Money Pool.* To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by Exelon's corporate treasurer. ComEd and its subsidiary, Commonwealth Edison of Indiana, Inc. (ComEd of Indiana), PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon Corporate and Unicom Investment, Inc., a wholly owned subsidiary of Exelon, may participate as lenders. Funding of, and borrowings from, the money pool are predicated on whether the contributions and borrowings result in

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economic benefits. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. During 2004, ComEd and PECO had various contributions to the money pool, and Generation and BSC had various loans from the money pool as described in the attached table:

	Maximum Invested	Maximum Borrowed	March 31, 2004 Contributed (Borrowed)
ComEd	\$487	\$ —	\$ 226
PECO	162	—	—
Generation	—	407	(226)
BSC	—	197	—

*Sithe Long-Term Debt.* At March 31, 2004, long-term debt of \$850 million was consolidated in Exelon and Generation's Consolidated Balance Sheets as a result of the adoption of FIN No. 46-R. See Note 2 and Note 4 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding the consolidation of Sithe and see Note 7 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding Sithe's long-term debt and the annual maturities.

*Security Ratings.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in the 2003 Form 10-K for a discussion of Exelon's security ratings.

*Shelf Registration.* As of March 31, 2004, Exelon, ComEd and PECO have current shelf registration statements for the sale of \$3.2 billion of securities that are effective with the SEC. Each company's ability to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, the current financial condition of the company, its securities ratings and market conditions.

*PUHCA Restrictions.* On April 1, 2004, Exelon obtained a new order from the SEC under the Public Utilities Holding Company Act of 1935 (PUHCA) authorizing through April 15, 2007, financing transactions, including the issuance of common stock, preferred securities, equity-linked securities, long-term debt and short-term debt in an aggregate amount not to exceed \$8.0 billion above the amount outstanding at December 31, 2003. The new financing order replaced a prior SEC order that expired on March 31, 2004 that authorized up to \$4.0 billion of financing. As of March 31, 2004, there was \$2.1 billion of financing authority remaining under the prior SEC order. The prior order limited Exelon's short-term debt outstanding to \$3.0 billion of the \$4.0 billion total financing authority. The new order eliminates the short-term debt sub-limit restriction. The prior order also authorized Exelon to issue guarantees of up to \$4.5 billion outstanding at any one time. The new order gives Exelon an additional \$1.5 billion of guaranty authority. At March 31, 2004, Exelon had provided \$2.0 billion of guarantees under the SEC order. See Contractual Obligations and Off-Balance Sheet Arrangements in this section for further discussion of guarantees. The SEC order requires Exelon to maintain a ratio of common equity to total capitalization (including securitization debt) of not less than 30%. At March 31, 2004, Exelon's common equity ratio was 35%. Exelon expects that it will maintain a common equity ratio of at least 30%.

Exelon is also limited by order of the SEC under PUHCA to an aggregate investment of \$4.0 billion in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs). At March 31, 2004, Exelon had invested \$2.8 billion in EWGs, leaving \$1.2 billion of investment authority under the order. In its April 1, 2004 financing order, the SEC authorized Exelon to invest \$4 billion in EWGs and reserved jurisdiction over an additional \$3.0 billion in investments in EWGs.

Under applicable law, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. Under Illinois law, ComEd may not pay any dividend on its stock unless its earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves, or unless it has specific authorization from the Illinois Commerce Commission (ICC). Furthermore, a significant loss recorded at ComEd may limit the dividends that ComEd can distribute to

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Exelon. At March 31, 2004, Exelon had retained earnings of \$2.5 billion, including ComEd's retained earnings of \$962 million (of which \$891 million had been appropriated for future dividend payments), PECO's retained earnings of \$586 million and Generation's undistributed earnings of \$647 million.

### ***Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations***

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. Exelon's, ComEd's, PECO's and Generation's contractual obligations and commercial commitments as of March 31, 2004 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2003 Form 10-K except for the following:

- In connection with the consolidation of Sithe pursuant to FIN No. 46-R, Generation maintains a \$50 million non-debt letter of credit under its credit agreement.
- See Note 7 and Note 17 to the Condensed Combined Notes to Consolidated Financial Statements for discussion of material changes in the registrants' respective debt from the amounts set forth in the 2003 Form 10-K.

**COMMONWEALTH EDISON COMPANY**

**General**

ComEd operates in a single business segment and its operations consist of the regulated sale of electricity and distribution and transmission services in northern Illinois.

**Executive Summary**

*Financial Results.* ComEd experienced an overall decline in net income of 7% in the first quarter of 2004. This decline primarily reflects lower collections of CTCs, partially offset by lower operating and maintenance expense compared to the first quarter of 2003 in which ComEd recorded charges associated with an agreement with various Illinois retail market participants and other interested parties.

*The Exelon Way.* See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — ComEd — Executive Summary” in the 2003 Form 10-K for a discussion of ComEd’s implementation of The Exelon Way.

*Financing Activities.* ComEd repaid \$176 million of long-term debt and made a \$93 million payment on long-term debt to ComEd Transitional Funding Trust during the first quarter of 2004. ComEd met all of its capital resource commitments with internally generated cash and expects to do so in the foreseeable future.

*Operations.* On March 18, 2004, the FERC approved ComEd’s plan to complete the integration of its transmission facilities into PJM subject to the NERC approval of PJM and Midwest ISO reliability plans to assure no adverse impacts. The NERC granted the required approval on April 2, 2004. On April 27, 2004, the FERC issued its order approving ComEd’s application to fully integrate into PJM on May 1, 2004. ComEd intends to accept the conditions in the FERC order and expects full integration to occur on that date. PECO and ComEd’s membership in PJM supports Exelon’s commitment to competitive wholesale electric markets and will provide Exelon the benefits of more transparent, liquid and competitive markets for the sale and purchase of electricity. Upon joining PJM, ComEd will begin to incur incremental administrative fees, which are expected to approximate \$30 million annually.

*Outlook for the Remainder of 2004 and Beyond.* ComEd’s outlook for the remainder of 2004 is consistent with the discussion within “Management’s Discussion and Analysis of Financial Condition and Results of Operations — ComEd — Executive Summary” in the 2003 Form 10-K.

**Results of Operations***Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003*

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Operating revenues</b>	\$1,336	\$1,424	\$(88)	(6.2)%
<b>Operating expenses</b>				
Purchased power	533	578	(45)	(7.8)%
Operating and maintenance	217	261	(44)	(16.9)%
Depreciation and amortization	102	94	8	8.5%
Taxes other than income	79	80	(1)	(1.3)%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total operating expense	931	1,013	(82)	(8.1)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Operating income</b>	405	411	(6)	(1.5)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Other income and deductions</b>				
Interest expense	(106)	(110)	4	(3.6)%
Distributions on mandatorily redeemable preferred securities	—	(7)	7	(100.0)%
Equity in earnings (losses) of unconsolidated affiliates	(3)	—	(3)	n.m.
Other, net	9	22	(13)	(59.1)%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total other income and deductions	(100)	(95)	(5)	5.3%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Income before income taxes and cumulative effect of a change in accounting principle</b>	305	316	(11)	(3.5)%
<b>Income taxes</b>	123	126	(3)	(2.4)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Net income before cumulative effect of a change in accounting principle</b>	182	190	(8)	(4.2)%
<b>Cumulative effect of a change in accounting principle</b>	—	5	(5)	(100.0)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Net income</b>	\$ 182	\$ 195	\$(13)	(6.7)%
	<u>          </u>	<u>          </u>	<u>          </u>	

n.m. — not meaningful

### Operating Revenues

ComEd's electric sales statistics were as follows:

Retail Deliveries — (in GWhs)	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Full service(a)</b>				
Residential	7,013	6,886	127	1.8%
Small commercial & industrial	5,133	5,627	(494)	(8.8)%
Large commercial & industrial	1,345	1,484	(139)	(9.4)%
Public authorities & electric railroads	1,240	1,416	(176)	(12.4)%
Total full service	14,731	15,413	(682)	(4.4)%
<b>PPO</b>				
Small commercial & industrial	731	793	(62)	(7.8)%
Large commercial & industrial	747	1,433	(686)	(47.9)%
Public authorities & electric railroads	434	537	(103)	(19.2)%
	1,912	2,763	(851)	(30.8)%
<b>Delivery only(b)</b>				
Small commercial & industrial	1,772	1,348	424	31.5%
Large commercial & industrial	2,940	1,832	1,108	60.5%
Public authorities & electric railroads	488	282	206	73.0%
	5,200	3,462	1,738	50.2%
Total PPO and delivery only	7,112	6,225	887	14.2%
<b>Total retail deliveries</b>	21,843	21,638	205	0.9%

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

(b) Delivery only service reflects customers receiving electric generation service from an ARES.

Electric Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Full service(a)</b>				
Residential	\$ 560	\$ 546	\$ 14	2.6%
Small commercial & industrial	373	397	(24)	(6.0)%
Large commercial & industrial	60	74	(14)	(18.9)%
Public authorities & electric railroads	73	84	(11)	(13.1)%
	—	—	—	
Total full service	1,066	1,101	(35)	(3.2)%
	—	—	—	
<b>PPO(b)</b>				
Small commercial & industrial	48	50	(2)	(4.0)%
Large commercial & industrial	42	72	(30)	(41.7)%
Public authorities & electric railroads	22	27	(5)	(18.5)%
	—	—	—	
	112	149	(37)	(24.8)%
	—	—	—	
<b>Delivery only(c)</b>				
Small commercial & industrial	33	41	(8)	(19.5)%
Large commercial & industrial	40	49	(9)	(18.4)%
Public authorities & electric railroads	8	9	(1)	(11.1)%
	—	—	—	
	81	99	(18)	(18.2)%
	—	—	—	
Total PPO and delivery only	193	248	(55)	(22.2)%
	—	—	—	
<b>Total electric retail revenues</b>	1,259	1,349	(90)	(6.7)%
Wholesale and miscellaneous revenue(d)	77	75	2	2.7%
	—	—	—	
<b>Total electric revenue</b>	\$1,336	\$1,424	\$(88)	(6.2)%

- (a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy.
- (b) Revenue from customers choosing ComEd's PPO includes an energy charge at market rates, transmission and distribution charges and a CTC.
- (c) Delivery only revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue.
- (d) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the three months ended March 31, 2004, as compared to the same period in 2003, are attributable to the following:

	Variance
Customer choice	\$(56)
Rate changes	(42)
Weather	(23)
Volume	31
	—
Electric retail revenue	\$(90)

*Customer Choice.* All ComEd customers have the choice to purchase energy from other suppliers. This choice generally does not impact the volume of deliveries, but affects revenue collected from customers related to energy supplied by ComEd. However, as of March 31, 2004, no ARES has sought approval from the ICC, and no electric utilities have chosen, to enter the ComEd residential market for the supply of electricity.

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For the three months ended March 31, 2004, the energy provided by alternative suppliers was 5,200 GWhs, or 23.8%, as compared to 3,462 GWhs, or 16.0%, for the same period in 2003.

The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO. As of March 31, 2004, the number of retail customers that had elected to purchase energy from an ARES or the ComEd PPO was approximately 20,200 as compared to 22,700 as of March 31, 2003, representing less than 1% of total customers in each period. MWhs delivered to such customers increased from approximately 6.2 million for the three months ended March 31, 2003 to 7.1 million for three months ended March 31, 2004, or from 29% to 33% of total quarterly retail deliveries.

*Rate Changes.* The \$76 million decrease in ComEd's collection of CTCs for the three months ended March 31, 2004 as compared to the same period in 2003 was due to a decrease in the CTC rates as a result of higher wholesale market prices of electricity, net of increased mitigation factors. This decrease was partially offset by increased wholesale market prices which increased energy revenue received under ComEd's PPO by \$19 million and by increased average rates paid by residential customers of \$5 million. Although residential rates are frozen through 2006, average residential rates fluctuate due to the usage patterns of customers. Starting in the June 2003 billing cycle, the increased wholesale market price of electricity, net of increased mitigation factors, decreases the collection of CTCs as compared to the respective prior year period.

*Weather.* The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. The weather conditions for the three months ended March 31, 2004 were unfavorable compared to the same period in 2003 as a result of milder winter weather in 2004. Heating degree-days decreased 5% for the three months ended March 31, 2004 compared to the same period in 2003, and were 2% lower than normal.

*Volume.* Revenues from higher delivery volume, exclusive of weather, increased \$31 million due to an increased usage per customer, primarily residential and large commercial and industrial.

Wholesale and miscellaneous revenue for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 remained constant.

### ***Purchased Power***

The decrease in purchased power expense was primarily attributable to a \$52 million decrease as a result of customers choosing to purchase energy from an ARES, an \$8 million decrease due to unfavorable weather conditions, and a \$7 million decrease due to the mix of average pricing related to ComEd's PPA with Generation partially offset by an increase of \$15 million due to higher volume.

### ***Operating and Maintenance***

The decrease in O&M expense was primarily attributable to a net one-time charge of \$41 million in 2003 as a result of an agreement with various Illinois retail market participants and other interested parties (Agreement) and a decrease in payroll expenses at ComEd of \$22 million due to fewer employees as a result of Exelon Way terminations and the centralization of key functions partially offset by \$17 million due to higher corporate allocations and \$8 million of higher employee fringe benefits in 2004. The increase in corporate allocations was driven by payroll expenses and employee fringe benefits resulting from the centralization of certain functions which transferred certain employees from ComEd to BSC in 2004.



### ***Depreciation and Amortization***

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Depreciation expense	\$ 81	\$ 75	\$ 6	8.0%
Recoverable transition costs amortization	11	11	—	—
Other amortization expense	10	8	2	25.0%
	—	—	—	
Total depreciation and amortization	\$102	\$ 94	\$ 8	8.5%

The increase in depreciation expense is primarily due to higher property, plant and equipment balances.

Recoverable transition costs amortization remained constant in the three months ended March 31, 2004 compared to the same period in 2003. ComEd expects to fully recover its recoverable transition costs regulatory asset balance of \$120 million by 2006. Consistent with the provision of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold.

### ***Taxes Other Than Income***

Taxes other than income remained constant for three months ended March 31, 2004 as compared to the same period in 2003.

### ***Interest Expense and Distributions on Mandatorily Redeemable Preferred Securities***

The aggregate of interest expense, interest expense to affiliates and distributions on mandatorily redeemable preferred securities decreased as a result of scheduled principal payments and refinancing existing debt at lower interest rates. Effective December 31, 2003, at the adoption of FIN No. 46-R, ComEd deconsolidated its financing trusts (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements). ComEd no longer records distributions on mandatorily redeemable preferred securities but records interest expense to affiliates related to ComEd's obligations to the financing trusts.

### ***Equity in Earnings (Losses) of Unconsolidated Affiliates***

In 2004, ComEd has \$3 million of equity in net loss of subsidiaries as a result of deconsolidating its financing trusts.

### ***Other, Net***

The change in Other, net is primarily related to the reversal of a \$12 million reserve for potential plant disallowance in 2003 at ComEd as a result of the Agreement (see Operating and Maintenance above).

### ***Income Taxes***

The effective income tax rate was 40.3% for the three months ended March 31, 2004, compared to 39.9% for the three months ended March 31, 2003.

### ***Cumulative Effect of a Change in Accounting Principle***

On January 1, 2003, ComEd adopted SFAS No. 143, resulting in income of \$5 million.

## **Liquidity and Capital Resources**

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. ComEd's access to external financing at reasonable terms is

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dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where ComEd no longer has access to the capital markets at reasonable terms, ComEd has access to a revolving credit facility that ComEd currently utilizes to support its commercial paper program. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Capital resources are used primarily to fund ComEd's capital requirements, including construction, repayments of maturing debt, the payment of dividends and contributions to Exelon's pension plans.

### ***Cash Flows from Operating Activities***

ComEd's cash flows from operating activities primarily results from sales of electricity to a stable and diverse base of retail customers at fixed prices. ComEd's future cash flows will be affected by its ability to achieve operating cost reductions, and the impact of the economy, weather and customer choice on its revenues. Cash flows from operations have been and are expected to continue to provide a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements. Operating cash flows after 2006 could be negatively affected by changes in ComEd's rate regulatory environment, although any effects are not expected to hinder ComEd's ability to fund its business requirements.

Cash flows from operations for the three months ended March 31, 2004 and 2003 were \$299 million and \$36 million, respectively. Changes in ComEd's cash flows from operations are generally consistent with changes in its results of operations, as further adjusted by changes in working capital in the normal course of business.

In addition to the items mentioned in Results of Operations, ComEd's operating cash flows for the three months ended March 31, 2004 and 2003 were affected by the following items:

- During the first quarter of 2003, ComEd made additional payments to Generation for amounts owed under the PPA. At March 31, 2004 and December 31, 2003, ComEd had accrued payments due to Generation under the PPA of \$152 million and \$171 million, respectively. At March 31, 2003 and December 31, 2002, ComEd had accrued payments due to Generation under the PPA of \$154 million and \$339 million, respectively.
- Discretionary contributions by ComEd to Exelon's defined benefit pension plans were \$72 million for the three months ended March 31, 2004 compared to \$59 million for the same period in 2003.

ComEd participates in Exelon's defined benefit pension plans. Exelon expects to contribute up to approximately \$419 million to its pension plans in 2004, including \$17 million to satisfy IRS minimum funding requirements, of which \$216 million is expected to be funded by ComEd.

ComEd has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets. As of March 31, 2004, the majority of the deferred tax liabilities related to the fossil plant sale are reflected in ComEd's Consolidated Balance Sheets with the remainder having been allocated to the Consolidated Balance Sheets of Generation in connection with Exelon's 2001 corporate restructuring. The total 1999 income tax liability deferred as a result of these transactions was approximately \$1.1 billion. Changes in IRS interpretations of existing primary tax authority or challenges to ComEd's positions could have the impact of accelerating future income tax payments and increasing interest expense related to the deferred tax gain that becomes current. Any required payments could be significant to the cash flows of ComEd. ComEd's management believes ComEd's reserve for interest, which has been established in the event that such positions are not sustained, reflects the most likely probable expected outcome in accordance with SFAS No. 5. However, the ultimate outcome of such matters could result in additional unfavorable or favorable adjustments to the results of operations, and such adjustments could be material. Federal tax returns covering the period of the 1999 sale are currently under IRS audit. Final resolution of this matter is not anticipated for several years.

### ***Cash Flows from Investing Activities***

Cash flows from investing activities were \$24 million for the three months ended March 31, 2004 compared to cash flows used in investing activities of \$169 million for the same period in 2003. The increase in

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cash flows from investing activities was primarily attributable to \$179 million of proceeds from an investment in the Exelon intercompany money pool and \$22 million net changes in restricted cash. ComEd's investing activities for the three months ended March 31, 2004 were funded primarily through operating activities.

ComEd's capital expenditures for the three months ended March 31, 2004 and 2003 were \$178 million and \$174 million, respectively. ComEd estimates that it will spend approximately \$616 million in total capital expenditures for 2004. Approximately one half of the budgeted 2004 expenditures are for continuing efforts to improve the reliability of its transmission and distribution systems. The remaining amount is for capital additions to support new business and customer growth. ComEd anticipates that it will obtain financing, when necessary, through borrowings, the issuance of debt or preferred securities, or capital contributions from Exelon. ComEd's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

### ***Cash Flows from Financing Activities***

Cash flows used in financing activities for the three months ended March 31, 2004 were \$341 million as compared to cash flows from financing activities of \$149 million in 2003. The increase in cash flows used in financing activities is primarily attributable to net changes in long-term debt of \$592 million, partially offset by net changes in short-term debt of \$26 million and interest-rate swap settlements of \$43 million. Additionally, ComEd paid a \$103 million dividend to Exelon during the three months ended March 31, 2004 compared to a \$120 million dividend during the same period in 2003.

### ***Credit Issues***

*Exelon Credit Facility.* ComEd meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. ComEd participates, along with Exelon Corporate, PECO and Generation, in a \$750 million 364-day unsecured revolving credit agreement and a \$750 million three-year unsecured revolving credit agreement with a group of banks. These credit agreements, and ComEd's participation therein, are described above under "Credit Issues — Exelon Credit Facility" in "Exelon Corporation — Liquidity and Capital Resources."

*Capital Structure.* ComEd's capital structure at March 31, 2004 is described above under "Credit Issues — Capital Structure" in "Exelon Corporation — Liquidity and Capital Resources."

*Intercompany Money Pool.* A description of the intercompany money pool, and ComEd's participation therein, is set forth above under "Credit Issues — Intercompany Money Pool" in "Exelon Corporation — Liquidity and Capital Resources." During the three months ended March 31, 2004, ComEd earned \$1 million in interest on its investments in the intercompany money pool.

*Security Ratings.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in the 2003 Form 10-K for a discussion of ComEd's security ratings.

*Shelf Registration.* As of March 31, 2004, ComEd has a current shelf registration statement for the sale of \$555 million of securities that is effective with the SEC. ComEd's ability to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, ComEd's current financial condition, its securities ratings and market conditions.

*Fund Transfer Restrictions.* At March 31, 2004, ComEd had retained earnings of \$962 million, of which \$891 million had been appropriated for future dividend payments. See "Liquidity and Capital Resources — Credit Issues — Fund Transfer Restrictions" under "Management's Discussion and Analysis of Financial Condition and Results of Operations — ComEd" in the 2003 Form 10-K for information regarding restrictions under Federal and Illinois law and under the agreements governing ComEd Financing II and III regarding dividend payments by ComEd. ComEd is precluded from lending or extending credit or indemnity to Exelon.

***Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations***

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. ComEd's contractual obligations and commercial commitments as of March 31, 2004 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2003 Form 10-K except for the following:

- See Note 7 to the Condensed Combined Notes to Consolidated Financial Statements for discussion of material changes in ComEd's debt from the amounts set forth in the 2003 Form 10-K.

## PECO ENERGY COMPANY

### General

PECO operates in a single business segment, and its operations consist of the regulated sale of electricity and distribution and transmission services in southeastern Pennsylvania and the sale of natural gas and distribution services in the Pennsylvania counties surrounding the City of Philadelphia.

### Executive Summary

*Financial Results.* PECO experienced an overall decline in net income of 4% in the first quarter of 2004. This decline was a result of lower electric operating revenues net of purchased power, primarily due to lower full service residential and small commercial and industrial sales.

*The Exelon Way.* See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — PECO — Executive Summary” in the 2003 Form 10-K for a discussion of PECO’s implementation of the Exelon Way. PECO recorded a severance charge of \$5 million associated with the implementation of The Exelon Way for the three months ended March 31, 2004 and is considering whether it will incur additional severance related costs in future periods.

*Financing Activities.* PECO repaid \$88 million of long-term debt to PECO Energy Transition Trust. PECO met all of its capital resource commitments with internally generated cash and expects to do so in the foreseeable future.

*Outlook for the Remainder of 2004 and Beyond.* PECO’s outlook for the remainder of 2004 is consistent with the discussion within “Management’s Discussion and Analysis of Financial Condition and Results of Operations — PECO — Executive Summary” in the 2003 Form 10-K.

**Results of Operations***Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003*

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Operating revenues</b>	\$1,239	\$1,217	\$ 22	1.8%
<b>Operating expenses</b>				
Purchased power	396	422	(26)	(6.2)%
Fuel	250	191	59	30.9%
Operating and maintenance	135	139	(4)	(2.9)%
Depreciation and amortization	125	120	5	4.2%
Taxes other than income	58	63	(5)	(7.9)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	964	935	29	3.1%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating income</b>	275	282	(7)	(2.5)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Other income and deductions</b>				
Interest expense	(14)	(86)	72	(83.7)%
Interest expense to affiliates	(63)	—	(63)	n.m.
Distributions on mandatorily redeemable preferred securities	—	(2)	2	(100.0)%
Equity in earnings (losses) of unconsolidated affiliates	(7)	—	(7)	n.m.
Other, net	2	9	(7)	(77.8)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total other income and deductions	(82)	(79)	(3)	3.8%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Income before income taxes</b>	193	203	(10)	(4.9)%
<b>Income taxes</b>	62	66	(4)	(6.1)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net income</b>	131	137	(6)	(4.4)%
<b>Preferred stock dividends</b>	1	2	(1)	(50.0)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net income on common stock</b>	\$ 130	\$ 135	\$ (5)	(3.7)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

n.m. — not meaningful

**Operating Revenue**

PECO's electric sales statistics were as follows:

Retail Deliveries — (in GWhs)	Three Months March 31,		Variance	% Change
	2004	2003		
<b>Full service(a)</b>				
Residential	2,744	3,115	(371)	(11.9)%
Small commercial & industrial	1,684	1,780	(96)	(5.4)%
Large commercial & industrial	3,617	3,482	135	3.9%
Public authorities & electric railroads	229	253	(24)	(9.5)%
Total full service	8,274	8,630	(356)	(4.1)%
<b>Delivery only(b)</b>				
Residential	582	264	318	120.5%
Small commercial & industrial	424	202	222	109.9%
Large commercial & industrial	150	210	(60)	(28.6)%
Public authorities & electric railroads(c)	—	—	—	—
Total delivery only	1,156	676	480	71.0%
<b>Total retail deliveries</b>	<b>9,430</b>	<b>9,306</b>	<b>124</b>	<b>1.3%</b>

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

(b) Delivery only service reflects customers receiving electric generation service from an alternative energy supplier.

(c) PECO's delivery only sales to Public Authorities and Electric Railroads were less than one GWh per quarter.

Electric Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Full service(a)</b>				
Residential	\$314	\$359	\$(45)	(12.5)%
Small commercial & industrial	176	194	(18)	(9.3)%
Large commercial & industrial	270	266	4	1.5%
Public authorities & electric railroads	20	22	(2)	(9.1)%
Total full service	780	841	(61)	(7.3)%
<b>Delivery only(b)</b>				
Residential	42	17	25	147.1%
Small commercial & industrial	20	10	10	100.0%
Large commercial & industrial	4	6	(2)	(33.3)%
Public authorities & electric railroads(c)	—	—	—	—
Total delivery only	66	33	33	100.0%
<b>Total electric retail revenues</b>	<b>846</b>	<b>874</b>	<b>(28)</b>	<b>(3.2)%</b>
Wholesale and miscellaneous revenue(d)	49	55	(6)	(10.9)%
<b>Total electric revenue</b>	<b>\$895</b>	<b>\$929</b>	<b>\$(34)</b>	<b>(3.7)%</b>

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- (a) Full service revenue reflects revenue from customers taking electric service under tariffed rates, which includes the cost of energy, the delivery cost of the transmission and the distribution of the energy and a CTC charge.
- (b) Delivery only revenue reflects revenue from customers receiving generation from an alternative supplier, which includes a distribution charge and a CTC charge.
- (c) PECO's delivery only sales to Public Authorities and Electric Railroads were less than \$1 million per quarter.
- (d) Wholesale and miscellaneous revenues include transmission revenue and other wholesale energy sales.

The changes in electric retail revenues for the three months ended March 31, 2004, as compared to the same period in 2003, were as follows:

	<u>Variance</u>
Customer choice	\$(26)
Rate mix	(19)
Weather	(7)
Volume	20
Rate change	4
	—
Retail revenue	\$(28)

*Customer Choice.* All PECO customers may choose to purchase energy from other suppliers. This choice generally does not affect kWh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO.

For the three months ended March 31, 2004, the energy provided by alternative suppliers was 1,156 GWhs, or 12.3%, as compared to 676 GWhs, or 7.3%, for the three months ended March 31, 2003. As of March 31, 2004, the number of customers served by alternative suppliers was 302,000, or 19.6%, as compared to 273,700, or 17.9%, as of March 31, 2003. The increase in both the energy provided by alternative suppliers and the number of customers served by alternative suppliers was due to the assignment of customers to alternative suppliers in 2003 as required by the PUC and PECO's final electric restructuring order.

*Rate Mix.* The decrease in revenues from rate mix was due to changes in monthly usage patterns in all customer classes during the three months ended March 31, 2004 as compared to the same period in 2003.

*Weather.* The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. The weather conditions were unfavorable compared to the prior year as a result of milder winter weather during the quarter. Heating degree-days decreased 3% compared to the same period in 2003.

*Volume.* Exclusive of the effect of weather conditions and customer choice, higher delivery volume related primarily to increased usage by all customer classes.

*Rate change.* Revenues increased \$4 million due to a scheduled phase-out of merger-related rate reductions. Under the settlement agreement entered into by PECO in 2000 relating to the PUC's approval of the merger among PECO, Unicom Corporation, the former parent company of ComEd, and Exelon, PECO agreed to \$200 million in aggregate rate reductions for all customers over the period January 1, 2002 through 2005. Rates were reduced by \$60 million per year in 2002 and 2003 and will be reduced by \$40 million per year in 2004 and 2005.

Electric wholesale and miscellaneous revenue decreased \$6 million primarily due to lower transmission revenue from PJM.



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PECO's gas sales statistics for the three months ended March 31, 2004 as compared to the same period in 2003 were as follows:

Deliveries to customers (in mmcf)	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Retail sales	29,803	31,460	(1,657)	(5.3)%
Transportation	7,132	8,166	(1,034)	(12.7)%
Total	36,935	39,626	(2,691)	(6.8)%

Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Retail sales	\$328	\$273	\$ 55	20.1%
Transportation	5	5	—	—
Resales and other	11	10	1	10.0%
Total	\$344	\$288	\$ 56	19.4%

The changes in gas retail revenue for the three months ended March 31, 2004 as compared to the same period in 2003, were as follows:

	Variance
Rate changes	\$ 69
Volume	(7)
Weather	(7)
Total gas retail revenues	\$ 55

*Rate Changes.* The favorable variance in rates was attributable to increases in rates through PUC-approved changes to the purchased gas adjustment clause that became effective March 1, 2003, December 1, 2003, and March 1, 2004. The average rate per mmcf for the three months ended March 31, 2004 was 43% higher than the rate for the same period in 2003. PECO's gas cost rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between the actual cost of purchased gas and the amount included in rates.

*Volume.* Exclusive of the effect of weather conditions, revenues were lower in the three months ended March 31, 2004 compared to the same period in 2003 due primarily to decreased sales in the residential and small commercial and industrial classes.

*Weather.* The weather conditions were unfavorable compared to the prior year as a result of milder winter weather during the quarter. Heating degree-days decreased 3% compared to the same period in 2003.

#### **Purchased Power**

The decrease in purchased power expense was attributable to \$26 million from customers in Pennsylvania assigned to or selecting an alternative electric generation supplier, \$6 million of lower prices, a \$5 million decrease in PJM transmission charges, and a \$3 million decrease associated with lower sales due to unfavorable weather conditions, partially offset by an increase of \$14 million related to increased sales exclusive of the effect of weather conditions.

#### **Fuel**

The increase in fuel expense was primarily attributable to \$69 million of higher gas costs, partially offset by a decrease of \$7 million related to decreased sales exclusive of the effect of weather conditions and a \$4 million decrease associated with lower sales due to unfavorable weather conditions.

### ***Operating and Maintenance***

The decrease in operating and maintenance expense was primarily attributable to \$9 million of lower payroll due to The Exelon Way and \$8 million of lower expenses related to the allowance for uncollectible accounts due to increased collection efforts and customer deposits, partially offset by \$11 million of higher corporate allocations and \$5 million of severance and severance-related costs associated with The Exelon Way. The increase in corporate allocations was driven by payroll expenses and employee fringe benefits resulting from the centralization of certain functions which transferred certain employees from PECO to BSC in 2004.

### ***Depreciation and Amortization***

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Competitive transition charge amortization	\$ 88	\$ 81	\$ 7	8.6%
Depreciation expense	33	33	—	—
Other amortization expense	4	6	(2)	(33.3)%
Total depreciation and amortization	\$125	\$120	\$ 5	4.2%

The additional amortization of the CTC is in accordance with PECO's original settlement under the Pennsylvania Competition Act.

### ***Taxes Other Than Income***

The decrease in taxes other than income was primarily attributable to \$3 million of lower capital stock tax and \$1 million related to lower payroll taxes.

### ***Interest Expense and Distributions on Mandatorily Redeemable Preferred Securities***

The aggregate of interest expense, interest expense to affiliates and distributions on mandatorily redeemable preferred securities decreased primarily due to lower outstanding debt and refinancing existing debt at lower rates. Effective December 31, 2003, at the adoption of FIN No. 46-R, PECO deconsolidated its financing trusts (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements). PECO no longer records distributions on mandatorily redeemable preferred securities but records interest expense to affiliates related to PECO's obligations to the financing trusts.

### ***Equity in Earnings (Losses) of Unconsolidated Affiliates***

In 2004, PECO has \$7 million in the equity in net loss of subsidiaries as a result of deconsolidating its financing trusts.

### ***Other, Net***

The decrease was attributable to a \$4 million decrease in interest income and a \$3 million favorable settlement of a customer contract in 2003.

### ***Income Taxes***

The effective tax rate was 32.1% for the three months ended March 31, 2004 as compared to 32.5% for the same period in 2003.

## **Liquidity and Capital Resources**

PECO's business is capital intensive and requires considerable capital resources. PECO's capital resources are primarily provided by internally generated cash flows from operations and, to the extent

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necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. PECO's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where PECO no longer has access to the capital markets at reasonable terms, PECO has access to a revolving credit facility that PECO currently utilizes to support its commercial paper program. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Capital resources are used primarily to fund PECO's capital requirements, including construction, repayments of maturing debt, the payment of dividends and contributions to Exelon's pension plans.

### ***Cash Flows from Operating Activities***

PECO's cash flows from operating activities primarily result from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices. PECO's future cash flows will be affected by its ability to achieve operating cost reductions, and the impact of the economy and weather on its revenues. Cash flows from operations have been and are expected to continue to provide a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements for the foreseeable future.

Cash flows from operations for the three months ended March 31, 2004 and 2003 were \$218 million and \$96 million, respectively. Changes in PECO's cash flows from operations are generally consistent with changes in its results of operations, as further adjusted by changes in working capital in the normal course of business.

In addition to the items mentioned in Results of Operations, PECO's operating cash flows for the three months ended March 31, 2004 and 2003 were affected by the following items:

- Natural gas inventories and deferred natural gas costs decreased \$30 million and \$70 million, respectively, during the three months ended March 31, 2004 resulting in a \$100 million increase to operating cash flows. During 2003, a decrease in natural gas inventories of \$45 million partially offset by an increase in deferred natural gas costs of \$28 million resulted in cash from operations of \$17 million.
- Discretionary contributions by PECO to Exelon's defined benefit pension plans were \$3 million during the three months ended March 31, 2004 compared to \$6 million for the same period in 2003.

PECO participates in Exelon's defined benefit pension plans. Exelon expects to contribute up to approximately \$419 million to its pension plans in 2004, including \$17 million to satisfy IRS minimum funding requirements, of which \$8 million is expected to be funded by PECO.

### ***Cash Flows from Investing Activities***

Cash flows used in investing activities for the three months ended March 31, 2004 were \$48 million compared to \$77 million of cash flows provided by investing activities in 2003. The decrease in cash flows used in investing activities was primarily attributable to a change in restricted cash of \$136 million and a decrease in capital expenditures of \$17 million. PECO's investing activities during the three months ended March 31, 2004 were funded primarily by operating activities.

PECO's projected capital expenditures for 2004 are \$233 million. Approximately 60% of the budgeted 2004 expenditures are for additions to or upgrades of existing facilities, including reliability improvements. The remainder of the capital expenditures support customer and load growth. PECO anticipates that it will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon. PECO's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

### ***Cash Flows from Financing Activities***

Cash flows used in financing activities for the three months ended March 31, 2004 were \$107 million compared to \$132 million for the same period in 2003. Cash flows used in financing activities are primarily attributable to debt service and payment of dividends to Exelon. The decrease in cash flows used in financing

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activities was primarily attributable to decreased debt redemptions of \$276 million, partially offset by decreased issuances of long-term debt of \$250 million. PECO paid dividends of \$91 million during the three months ended March 31, 2004 and 2003, respectively, of which \$90 million and \$89 million, respectively, were paid to Exelon.

### ***Credit Issues***

*Exelon Credit Facility.* PECO meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. PECO participates, along with Exelon Corporate, ComEd and Generation, in a \$750 million 364-day unsecured revolving credit agreement and a \$750 million three-year unsecured revolving credit agreement with a group of banks. These credit agreements, and PECO's participation therein, are described above under "Credit Issues — Exelon Credit Facility" in "Exelon Corporation — Liquidity and Capital Resources."

*Capital Structure.* PECO's capital structure at March 31, 2004 is described above under "Credit Issues — Capital Structure" in "Exelon Corporation — Liquidity and Capital Resources."

*Intercompany Money Pool.* A description of the intercompany money pool, and PECO's participation therein, is set forth above under "Credit Issues — Intercompany Money Pool" in "Exelon Corporation — Liquidity and Capital Resources." During the three months ended March 31, 2004, PECO earned less than \$1 million in interest from its investments in the intercompany money pool.

*Security Ratings.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in the 2003 Form 10-K for a discussion of PECO's security ratings.

*Shelf Registration.* As of March 31, 2004, PECO has a current shelf registration statement for the sale of \$625 million of securities that is effective with the SEC. PECO's ability to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, PECO's current financial condition, its securities ratings and market conditions.

*Fund Transfer Restrictions.* At March 31, 2004, PECO had retained earnings of \$586 million. See "Liquidity and Capital Resources — Credit Issues — Fund Transfer Restrictions" under "Management's Discussion and Analysis of Financial Condition and Results of Operations — PECO" in the 2003 Form 10-K for information regarding fund transfer restrictions.

### ***Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations***

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. PECO's contractual obligations and commercial commitments as of March 31, 2004 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2003 Form 10-K except for the following:

- See Note 17 to the Condensed Combined Notes to Consolidated Financial Statements for discussion of material changes in PECO's debt from the amounts set forth in the 2003 Form 10-K.

**EXELON GENERATION COMPANY, LLC****General**

Generation operates as a single segment and consists of electric generating facilities, energy marketing operations, a 50% interest in Sithe and, effective January 1, 2004, the competitive retail sales business of Exelon Energy Company.

Effective January 1, 2004, Enterprises' competitive retail sales business, Exelon Energy Company, became part of Generation. Generation's results of operations have not been adjusted to reflect Exelon Energy Company as a part of Generation for 2003. Exelon Energy Company reported the following results for the three months ended March 31, 2003:

Total revenues	\$330
Intersegment revenues	6
Income (loss) before income taxes	(16)
Income taxes (benefit)	(6)
Net income (loss)	(10)

**Executive Summary**

*Financial Results.* Generation reported an overall increase in net income for the first quarter of 2004 as compared to the first quarter of 2003. This increase was primarily the result of the first quarter 2003 \$200 million impairment charge of Generation's investment in Sithe. Overall results were also affected by modest improvements in wholesale energy prices in 2004, which increased Generation's energy margins. Generation's revenue, net of purchased power and fuel, increased significantly in 2004 as compared to 2003, primarily as a result of the acquisition of the remaining 50% of AmerGen in December 2003, the transfer of Exelon Energy Company to Generation on January 1, 2004 and the commencement of commercial operations at Boston Generating's Mystic 8 and 9 and Fore River generating facilities after the first quarter of 2003. In 2004, Generation recorded an after-tax gain of \$32 million due to the adoption of FIN No. 46-R, which resulted in the consolidation of Sithe within Generation's financial statements as of March 31, 2004, compared to an after-tax gain of \$108 million recorded in 2003 upon the adoption of SFAS No. 143.

*The Exelon Way.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Generation — Executive Summary" in the 2003 Form 10-K for a discussion of Generation's implementation of The Exelon Way. Generation released related reserves of \$6 million during the first quarter of 2004. Based upon current estimates, Generation expects that 513 employees will be severed through 2004.

*Investment Strategy.* Generation continues to follow a disciplined approach in investing to maximize the earnings and cash flows from its assets and businesses and to sell those that do not meet its goals.

On February 23, 2004, Generation and the lenders under the Boston Generating Facility entered into a settlement that will result in the sale of Boston Generating, which owns the companies that own the Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, and the transfer of responsibility for plant operations and power marketing activities to a special purpose entity owned by the lenders. Generation also settled certain litigation associated with the projects. Upon entering into the sale agreement with the lenders, the assets and liabilities of Boston Generating were classified as held for sale within Generation's Consolidated Balance Sheet.

*Financing Activities.* During the first quarter, Generation issued \$165 million of commercial paper to fund operations, however, following the sale of Boston Generating, Generation expects to meet all of its capital resource commitments with internally generated cash for the foreseeable future, absent new acquisitions

*Operations.* Generation's nuclear fleet achieved a 90.5% capacity factor in the first quarter of 2004 compared to 94.4% in the first quarter of 2003, primarily as a result of an increased number of planned outages and outage days in 2004 as compared to 2003. Generation continued the integration of the AmerGen fleet into

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Generation, following the 2003 acquisition of the remaining 50% interest in the venture, which was previously held by British Energy plc (British Energy).

*Outlook for the Remainder of 2004 and Beyond.* Generation's outlook for the remainder of 2004 is consistent with the discussion within "Management's Discussion and Analysis of Financial Condition and Results of Operations — Generation — Executive Summary" in the 2003 Form 10-K.

**Results of Operations**

*Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003*

	Three Months Ended March 31,		Variance	% Change
	2004	2003		
<b>Operating revenues</b>	\$1,953	\$1,879	\$ 74	3.9%
<b>Operating expenses</b>				
Purchased power	519	841	(322)	(38.3)%
Fuel	586	364	222	61.0%
Operating and maintenance	652	487	165	33.9%
Depreciation and amortization	55	45	10	22.2%
Taxes other than income	47	48	(1)	(2.1)%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total operating expenses	1,859	1,785	74	4.1%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Operating income</b>	94	94	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Other income and deductions</b>				
Interest expense	(26)	(19)	(7)	36.8%
Equity in earnings (losses) of unconsolidated affiliates	(2)	19	(21)	(110.5)%
Other, net	47	(167)	214	(128.1)%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total other income and deductions	19	(167)	186	(111.4)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Income (loss) before income taxes</b>	113	(73)	186	n.m.
<b>Income tax expense (benefit)</b>	46	(21)	67	n.m.
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Income (loss) before cumulative effect of changes in accounting principles</b>	67	(52)	119	n.m.
<b>Cumulative effect of changes in accounting principles, net of income taxes</b>	32	108	(76)	(70.4)%
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Net income</b>	\$ 99	\$ 56	\$ 43	76.8%
	<u>          </u>	<u>          </u>	<u>          </u>	

n.m. — not meaningful

**Operating Revenues**

For the three months ended March 31, 2004 and 2003, Generation's sales were as follows:

Revenue	Three Months Ended March 31,		Variance	% Change
	2004	2003		
Energy Delivery and Exelon Energy Company(a)	\$ 860	\$ 965	\$(105)	(10.9)%
Market and retail electric sales(b)	884	857	27	3.2%
<b>Total electric energy sales revenue</b>	<b>1,744</b>	<b>1,822</b>	<b>(78)</b>	<b>(4.3)%</b>
Retail gas sales	176	—	176	n.m.
Trading portfolio	—	(1)	1	(100.0)%
Other revenue	33	58	(25)	(43.1)%
<b>Total revenue</b>	<b>\$1,953</b>	<b>\$1,879</b>	<b>\$ 74</b>	<b>3.9%</b>

(a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail electric sales.

(b) Includes retail electric sales of Exelon Energy Company in 2004.

n.m. — not meaningful

Sales (in GWhs)	Three Months Ended,		Variance	% Change
	2004 (c)	2003		
Energy Delivery and Exelon Energy Company(a)	27,464	30,594	(3,130)	(10.2)%
Market and retail electric sales(b)	23,983	23,815	168	0.7%
<b>Total sales</b>	<b>51,447</b>	<b>54,409</b>	<b>(2,962)</b>	<b>(5.4)%</b>

(a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail electric sales.

(b) Includes retail electric sales of Exelon Energy Company in 2004.

(c) Sales in 2004 do not include 5,453 GWhs which were netted with purchased power GWhs as a result of the reclassification of certain hedging activities in accordance with EITF 03-11.

Trading volumes of 5,113 GWhs and 9,527 GWhs for the three months ended March 31, 2004 and 2003, respectively, are not included in the table above. The decrease in trading volume is a result of reduced proprietary trading activity.

Generation's average margin and other operating data for the three months ended March 31, 2004 and 2003 are as follows:

(\$/MWh)	Three Months Ended March 31,		% Change
	2004	2003	
<b>Average revenue</b>			
Energy Delivery and Exelon Energy Company(a)	\$31.31	\$31.54	(0.7)%
Market and retail electric sales(b)	36.86	35.99	2.4%
Total — excluding the trading portfolio	33.90	33.49	1.2%
<b>Average supply cost(c) — excluding the trading portfolio</b>	<b>\$21.48</b>	<b>\$22.06</b>	<b>(2.6)%</b>
<b>Average margin — excluding the trading portfolio</b>	<b>\$12.42</b>	<b>\$11.43</b>	<b>8.7%</b>

(a) Includes sales to Exelon Energy Company during 2003. As of January 1, 2004, Exelon Energy Company became part of Generation and is presented as retail sales.





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- (b) Includes retail electric sales of Exelon Energy Company in 2004.
- (c) Average supply cost includes purchased power, fuel costs, and PPAs with AmerGen in 2003.

*Market and Retail Electric Sales.* Market and retail electric sales increased \$40 million for the three months ended March 31, 2004 compared to the same period in 2003, primarily resulting from the following:

	<u>Variance</u>
Effects of EITF 03-11 adoption	\$(206)
Boston Generating	117
Exelon Energy Company and AmerGen operations	78
Other operations	51
	<u>          </u>
Increase in market and retail electric sales	\$ 40
	<u>          </u>

*Retail Gas Sales.* Retail gas revenue increased \$176 million as a result of Exelon Energy Company retail operations, which were not included in Generation's financial results in 2003.

*Energy Delivery and Exelon Energy Company.* As a result of Exelon Energy Company's assets and operations being transferred to Generation effective January 1, 2004, sales to Exelon Energy Company are no longer reported as affiliate revenue. Revenue from sales to Exelon Energy Company for the three months ended March 31, 2003 was \$64 million.

Revenue from sales to affiliates decreased primarily due to lower volume sales to Energy Delivery of \$55 million primarily due to customers electing to purchase energy from alternative electric suppliers or ComEd's PPO and unfavorable weather conditions in the ComEd and PECO service territories. Price increases in the PECO region, partially offset by minimal price decreases in the ComEd region, resulted in a \$5 million increase in affiliate revenue.

*Other.* Revenues decreased for the three months ended March 31, 2004 as compared to the same period in 2003, primarily due to a \$10 million decrease in fuel sales which is due primarily to gas sales in 2003 to Exelon Energy Company which is consolidated in 2004, as well as decreased coal sales year over year due to fewer coal contracts; and the effects of adopting EITF 03-11, which calls for fuel expense to offset revenue derived from certain fossil fuel transactions. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for additional information regarding EITF 03-11. As a result, revenues and fuel expense were lowered by \$7 million, of which \$5 million was related to Boston Generating operations.

### ***Purchased Power and Fuel***

Generation's supply source is summarized below:

Supply Source (in GWhs)	Three Months Ended March 31,		Variance	% Change
	2004 <sup>(c)</sup>	2003		
Nuclear generation(a)	33,411	29,330	4,081	13.9%
Purchases — non-trading portfolio(b)	11,691	20,029	(8,338)	(41.6)%
Fossil and hydro generation	6,345	5,050	1,295	25.6%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total supply	51,447	54,409	(2,962)	(5.4)%
	<u>          </u>	<u>          </u>	<u>          </u>	

(a) Excludes AmerGen for 2003. AmerGen generated 4,639 GWhs during the three months ended March 31, 2004.

(b) Includes PPAs with AmerGen, which represented 2,488 GWhs in 2003.

(c) Sales in 2004 do not include 5,453 GWhs, which were netted with purchased power GWhs as a result of the reclassification of certain hedging activities in accordance with EITF 03-11.

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Generation's supply mix changed as a result of increased fossil generation due to Boston Generating's Mystic units 8 and 9 and Fore River generating facilities becoming operational in the second and third quarter of 2003, which in total account for an increase of 2,266 GWhs, and Generation's acquisition of the remaining 50% interest in AmerGen in December 2003. All of the power generated by AmerGen plants is included in nuclear generation for 2004; previously, power obtained from the AmerGen facilities was treated as purchased power. Purchased power from AmerGen during the three months ended March 31, 2003 was 2,488 GWhs.

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

	<u>Variance</u>
Volume	\$(176)
Price	(96)
AmerGen and Exelon Energy Company	112
Midwest Generation	(23)
Boston Generating	108
Mark-to-market adjustments on hedging activity	8
Other	(33)
	<u>          </u>
Decrease in purchased power and fuel expense	\$(100)
	<u>          </u>

*Volume.* The decrease reflects the effects of adopting EITF 03-11, resulting in a decrease of \$200 million. The decrease was partially offset by a \$21 million increase in purchased power volume and a \$3 million increase due to increased generation.

*Price.* The decrease reflects lower market purchased power prices of \$48 million and lower average fossil fuel costs used for non-Boston Generating operations of \$48 million during the three months ended March 31, 2004 as compared to the same period in 2003.

*AmerGen and Exelon Energy Company.* As result of Generation's acquisition of the remaining 50% interest in AmerGen and the transfer of Exelon Energy Company to Generation effective January 1, 2004, purchased power decreased \$62 million and fuel expense increased \$174 million. Generation recorded no related party purchased power for the quarter ended March 31, 2004. During the quarter ended March 31, 2003, Generation recorded \$68 million for purchased power from AmerGen.

*Midwest Generation.* Generation decreased the volume of purchased power from Midwest Generation as a result of Generation exercising its option to reduce the capacity purchased from Midwest Generation.

*Boston Generating.* The Mystic 8 and 9 generating facilities began commercial operations during the second quarter of 2003, and the Fore River generating facility began commercial operations during the third quarter of 2003. As a result, purchased power and fuel expense increased \$121 million. The increase was partially offset by a decrease of \$13 million related to the effects of adopting EITF 03-11.

*Hedging Activity.* Mark-to-market losses on hedging activities were \$39 million for the three months ended March 31, 2004 compared to losses of \$31 million for the same period of 2003. Hedging activities in 2004 relating to non-Boston Generating accounted for a loss of \$37 million, and non-Boston Generating operations in 2004 accounted for a loss of \$2 million.

*Other.* Other decreases in purchased power and fuel were primarily due to a \$21 million decrease in transmission expense resulting from reduced inter-region transmission and a \$4 million decrease in intercompany purchased power expense.

**Operating and Maintenance**

The changes in operating and maintenance expense for the three months ended March 31, 2004 compared to the same period in 2003 consisted of the following:

	Variance
AmerGen and Exelon Energy Company(a)	\$ 110
Refueling outage costs(b)	36
Boston Generating	20
Decommissioning accretion costs(c)	7
Co-owned facilities	5
Pension, payroll and benefit costs associated with The Exelon Way	(9)
Other	(4)
	—
Increase in operating and maintenance expense	\$ 165
	—

- (a) Includes refueling outage expenses of \$24 million at AmerGen.
- (b) Refueling outage days increased from 50 days for the three months ended March 31, 2003 to 114 days during the same period in 2004.
- (c) Includes \$10 million due to AmerGen asset retirement obligation accretion.

Nuclear fleet operating data and purchased power costs data for the three months ended March 31, 2004 and 2003 were as follows:

	Three Months Ended March 31,	
	2004	2003
Nuclear fleet capacity factor(a)	90.5%	94.4%
Nuclear fleet production cost per MWh(a)	\$14.29	\$12.80
Average purchased power cost for wholesale operations per MWh(b)	\$44.48	\$41.99

- (a) Includes AmerGen and excluding Salem, which is operated by PSE&G.
- (b) Includes PPAs with AmerGen in 2003.

Lower nuclear capacity factors and increased nuclear production costs were primarily due to 64 additional planned refueling outage days, resulting in a \$60 million increase in planned outage costs, including \$24 million of planned refueling outage costs at AmerGen, in the three months ended March 31, 2004 as compared to the same period in 2003. There were four planned outages during the three months ended March 31, 2004, compared to two planned outages during the same period in 2003. The three months ended March 31, 2004 included five unplanned outages compared to three unplanned outages during the same period in 2003. Nuclear capacity factors were also affected by Quad Cities operating at lower than anticipated capacity levels.

The Quad Cities units have intermittently been operating at pre-Extended Power Uprate (EPU) generation levels due to performance issues with their steam dryers. Generation is currently evaluating data to determine when the units can return to EPU output levels. There is a continued risk that the Quad Cities units will not return to EPU operating levels in the near future. There is also a risk that additional expenditures will be required on these units to allow extended operations at the EPU output levels.

**Depreciation and Amortization**

The increase in depreciation and amortization expense for the three months ended March 31, 2004 as compared to the same period in 2003 was primarily attributable to \$8 million of additional depreciation expense on capital additions placed in service after the first quarter of 2003, of which \$3 million of expense is

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related to the Boston Generating facilities. In addition, depreciation and amortization expense increased \$2 million due to increased amortization of long-term debt and capital leases.

### ***Interest Expense***

The increase in interest expense was primarily due to the issuance of \$500 million of Senior Notes in December 2003.

### ***Equity in Earnings (Losses) of Unconsolidated Affiliates***

The decrease in equity in earnings of unconsolidated affiliates was partially due to a \$17 million decrease resulting from Generation's consolidation of AmerGen in 2004 following the purchase of British Energy's 50% interest in AmerGen in December 2003. See Note 3 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of Generation's purchase of British Energy's 50% interest in AmerGen. The decrease was also due to a \$4 million decrease in Generation's equity in earnings of Sithe. Sithe's earnings were primarily affected by unfavorable mark-to-market activity.

### ***Other, Net***

The increase in other, net was primarily due to a \$200 million impairment charge during the three months ended March 31, 2003 as a result of a change in fair value of Generation's investment in Sithe, and \$11 million of nuclear decommissioning trust income related to AmerGen in 2004.

### ***Income Taxes***

The effective income tax rate was 40.6% for the three months ended March 31, 2004 compared to 28.8% for the same period in 2003. This increase was primarily attributable to the impairment charges recorded in 2003 related to Generation's investment in Sithe which resulted in a pre-tax loss. In addition, the rate increased due to the additional nuclear decommissioning investment income associated with AmerGen and its related taxes.

### ***Cumulative Effect of Changes in Accounting Principles***

Net income for the three months ended March 31, 2004 reflects income of \$32 million, net of income taxes, related to the consolidation of Sithe pursuant to FIN No. 46-R which resulted from the reversal of certain guarantees on behalf of Sithe that had been recorded at Generation prior to December 31, 2003, while net income for the three months ended March 31, 2003 reflects income of \$108 million, net of income taxes, for the adoption of SFAS No. 143. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding the adoptions of FIN No. 46-R and SFAS No. 143.

## **Liquidity and Capital Resources**

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool and/or capital contributions from Exelon. Generation's working capital deficit at March 31, 2004 is expected to be eliminated with its anticipated continuance of positive operating cash flows and the eventual elimination of Boston Generating's debt balance upon the sale of Boston Generating. The sale of Boston Generating will be substantively a non-cash transaction, with the Boston Generating credit facility continuing as a liability of Boston Generating at the time it is sold, without recourse to Exelon or Generation. See Note 3 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of the sale of Boston Generating. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Generation no longer has access to the capital markets at reasonable terms, Generation has access to a revolving credit facility. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Capital resources are used primarily to fund Generation's capital requirements, including

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construction, repayments of maturing debt, the payment of distributions to Exelon, contributions to Exelon's pension plans and investments in new and existing ventures. Any future acquisitions could require external financing or borrowings or capital contributions from Exelon.

### ***Cash Flows from Operating Activities***

Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Generation's affiliated companies. Generation's future cash flows from operating activities will be affected by future demand and market prices for energy and its ability to continue to produce and supply power at competitive costs. Cash flows from operations have been and are expected to continue to provide a reliable, steady source of cash flows, sufficient to meet operating and capital expenditures requirements for the foreseeable future.

Cash flows from operations for the three months ended March 31, 2004 and 2003 were \$202 million and \$278 million, respectively. Changes in Generation's cash flows from operations are generally consistent with changes in its results of operations, as further adjusted by changes in working capital in the normal course of business and non-cash charges.

In addition to the items mentioned in Results of Operation, Generation's operating cash flows for the three months ended March 31, 2004 were affected by the following items:

- Sales to ComEd decreased in 2003 in line with the lower load requirements of the territory due to the customer choice initiative.
- Discretionary contributions to Exelon's defined benefit pension plans were \$59 million for the three months ended March 31, 2004 compared to \$50 million for the same period in 2003.

Generation participates in Exelon's defined benefit pension plans. Exelon expects to contribute up to approximately \$419 million to its pension plans in 2004, including \$17 million to satisfy IRS minimum funding requirements, of which \$170 million is expected to be funded by Generation during 2004.

### ***Cash Flows from Investing Activities***

Cash flows used in investing activities were \$152 million and \$272 million for the three months ended March 31, 2004 and 2003, respectively. The decrease in cash used in investing activities during the three months ended March 31, 2004 is primarily attributable to \$53 million of restricted cash used for Boston Generating operations during the three months ended March 31, 2004, compared to \$56 million of restricted cash received during the three months ended March 31, 2003. In addition, Generation received \$42 million during the three months ended March 31, 2004 from the sale of three gas turbines at Generation that were classified as assets held for sale at December 31, 2003. Generation's capital expenditures for the three months ended March 31, 2004 and 2003 were \$213 million and \$175 million, respectively. Generation's capital expenditures represent additions to nuclear fuel and additions and upgrades to existing facilities. Generation estimates that it will spend approximately \$972 million in total capital expenditures in 2004. Generation anticipates that nuclear refueling outages will increase from eight in 2003 to ten in 2004. Generation's capital expenditures are expected to be funded by internally generated funds.

### ***Cash Flows from Financing Activities***

Cash flows used in financing activities were \$108 million for the three months ended March 31, 2004, compared to \$7 million cash provided in 2003. The increase in cash flows used in financing activities was primarily a result of the repayment of intercompany borrowings of \$190 million during the three months ended March 31, 2004, compared to \$6 million during the same period in 2003, and the partial repayment of the acquisition note payable to Sithe of \$27 million. An additional use of cash was the payment of distributions to Exelon totaling \$54 million. This use of cash was partially offset by the issuance of \$165 million of commercial paper during the three months ended March 31, 2004.

### ***Credit Issues***

*Exelon Credit Facility.* Generation meets its short-term liquidity requirements primarily through the issuance of commercial paper and intercompany borrowings from Exelon's intercompany money pool. Generation participates, along with Exelon Corporate, ComEd and PECO, in a \$750 million 364-day unsecured revolving credit agreement and a \$750 million three-year unsecured revolving credit agreement with a group of banks. These credit agreements, and Generation's participation therein, are described above under "Credit Issues — Exelon Credit Facility" in "Exelon Corporation — Liquidity and Capital Resources."

*Capital Structure.* Generation's capital structure at March 31, 2004 is described above under "Credit Issues — Capital Structure" in "Exelon Corporation — Liquidity and Capital Resources."

*Boston Generating Project Debt.* A description of this project financing, and the orderly transition out of the ownership of the related assets, is set forth above under "Credit Issues — Boston Generating Project Debt" in "Exelon Corporation — Liquidity and Capital Resources."

*Intercompany Money Pool.* A description of the intercompany money pool, and Generation's participation therein, is set forth above under "Credit Issues — Intercompany Money Pool" in "Exelon Corporation — Liquidity and Capital Resources." For the three months ended March 31, 2004, Generation paid \$1 million in interest to the money pool.

*Sithe Long-Term Debt.* A description of the Sithe long-term debt consolidated as a result of the adoption of FIN No. 46-R is set forth above under "Credit Issues — Sithe Long-Term Debt" in "Exelon Corporation — Liquidity and Capital Resources."

*Security Ratings.* See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in the 2003 Form 10-K for a discussion of Generation's security ratings.

*Fund Transfer Restrictions.* At March 31, 2004, Generation had undistributed earnings of \$647 million. See "Liquidity and Capital Resources — Credit Issues — Fund Transfer Restrictions" under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Generation" in the 2003 Form 10-K for information regarding fund transfer restrictions.

### ***Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations***

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. Generation's contractual obligations and commercial commitments as of March 31, 2004 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2003 Form 10-K except for the following:

- In connection with the transfer of Exelon Energy Company to Generation effective January 1, 2004, Generation acquired \$162 million in energy marketing contract guarantees.
- In connection with the consolidation of Sithe pursuant to FIN No. 46-R, Generation maintains a \$50 million non-debt letter of credit under its credit agreement.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Exelon is exposed to market risks associated with commodity prices, credit, interest rates and equity prices. The inherent risk in market-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, counterparty credit, interest rates and equity security prices. Exelon's Risk Management Committee (RMC) sets forth risk management policy and objectives and establishes procedures for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity and risk exposures. The RMC is chaired by the chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning, vice president of strategy, vice president of audit services and officers from each of the business units. The RMC reports to the Exelon Board of Directors on the scope of Exelon's derivative and risk management activities.

#### **Commodity Price Risk**

##### *Generation*

Commodity price risk is associated with market price movements resulting from excess or insufficient generation, changes in fuel costs, market liquidity and other factors. Trading activities and non-trading marketing activities include the purchase and sale of electric capacity, energy and fossil fuels, including oil, gas, coal and emission allowances. The availability and prices of energy and energy-related commodities are subject to fluctuations due to factors such as weather, governmental environmental policies, changes in supply and demand, state and Federal regulatory policies and other events.

##### *Normal Operations and Hedging Activities*

Electricity available from Generation's owned or contracted generation supply in excess of its obligations to customers, including Energy Delivery's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge its anticipated exposures. Generation has an estimated 90% hedge ratio in 2004 for its energy marketing portfolio. This hedge ratio represents the percentage of Generation's forecasted aggregate annual generation supply that is committed to firm sales, including sales to Energy Delivery's retail load. Energy Delivery's retail load assumptions are based on forecasted average demand. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, energy market option volatility and actual loads. During peak periods the amount hedged declines to meet our commitment to Energy Delivery. Market price risk exposure is the risk of a change in the value of unhedged positions. Absent any opportunistic efforts to mitigate market price exposure, the estimated market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity is approximately a \$64 million decrease in net income. This sensitivity assumes a 90% hedge ratio and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

##### *Proprietary Trading Activities*

Generation uses financial contracts for proprietary trading purposes. Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a very small portion of its overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than one percent of Generation's owned and contracted supply of electricity. Generation expects this level of proprietary trading activity to continue in the future. The results of the trading portfolio for the first quarter of 2004 was a loss of less than \$1 million (before taxes) which included a \$1 million unrealized mark-to-market loss. The Value-at-Risk (VaR) on proprietary trading activity averaged \$200,000 dollars of exposure over the

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last 18 months. Because of the diminutive nature of the trading portfolio in comparison to Generation's total gross margin of \$848 million, Generation has not segregated proprietary trading activity in the following tables. The trading portfolio is subject to a risk management policy that includes stringent risk management limits including volume, stop-loss and VaR limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the power marketing activities.

Generation's energy contracts are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). Most non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133 discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in Exelon's 2003 Form 10-K. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in Other Comprehensive Income (OCI), and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts are recognized in earnings on a current basis.

The following detailed presentation of the trading and non-trading marketing activities at Generation is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers. Generation does not consider its proprietary trading to be a significant activity in its business; however, Generation believes it is important to include these risk management disclosures.

The following tables describe the drivers of Generation's energy trading and marketing business and gross margin included in the income statement for the three months ended March 31, 2004 and 2003. Normal operations and hedging activities represent the marketing of electricity available from Generation's owned or contracted generation, including Energy Delivery's retail load, sold into the wholesale market. As the information in these tables highlights, mark-to-market activities represent a small portion of the overall gross margin for Generation. Accrual activities, including normal purchases and sales, account for the majority of the gross margin. The mark-to-market activities reported here are those relating to changes in fair value due to external movement in prices. Further delineation of gross margin by the type of accounting treatment typically afforded each type of activity is also presented (i.e., mark-to-market vs. accrual accounting treatment).

	Three Months Ended March 31,	
	2004	2003
Mark-to-market activities:		
Unrealized mark-to-market gain/(loss)		
Origination unrealized gain/(loss) at inception	\$ —	\$ —
Changes in fair value prior to settlements(a)	35	24
Changes in valuation techniques and assumptions	—	—
Reclassification to realized at settlement of contracts	(75)	(57)
	—	—
Total change in unrealized fair value(b)	(40)	(33)
Realized net settlement of transactions subject to mark-to-market	75	57
	—	—
Total mark-to-market activities gross margin	\$ 35	\$ 24
	—	—



	Three Months Ended March 31,	
	2004	2003
Accrual activities:		
Accrual activities revenue	\$1,395	\$1,352
Hedge gains reclassified from OCI	501	398
Total revenue — accrual activities	1,896	1,750
Purchased power and fuel	458	597
Hedges of purchased power and fuel reclassified from OCI	625	503
Total purchased power and fuel	1,083	1,100
Total accrual activities gross margin	813	650
Total gross margin(c)	\$ 848	\$ 674

- (a) Includes hedge ineffectiveness of \$1 million recorded in earnings.
- (b) Includes \$1 million and \$2 million of unrealized losses due to proprietary trading activity during the three months ended March 31, 2004 and 2003, respectively.
- (c) Total gross margin represents revenue, net of purchased power and fuel expense.

The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2004 to March 31, 2004. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings, as shown in the previous table, as well as the settlements from OCI to earnings and changes in fair value for the hedging activities that are recorded in Accumulated Other Comprehensive Income on the March 31, 2004 Consolidated Balance Sheet.

Total mark-to-market energy contract net assets at January 1, 2004	\$(216)
Total change in fair value during 2004 of contracts recorded in earnings	33
Reclassification to realized at settlement of contracts recorded in earnings	(74)
Reclassification to realized at settlement from OCI	124
Effective portion of changes in fair value — recorded in OCI	(438)
Purchase/sale of existing contracts or portfolios subject to mark-to-market	144
Total mark-to-market energy contract net assets (liabilities) at March 31, 2004	\$(427)

The following table details the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of March 31, 2004 and December 31, 2003:

	March 31, 2004	December 31, 2003
Current assets	\$ 399	\$ 322
Noncurrent assets	375	100
Total mark-to-market energy contract assets	774	422
Current liabilities	(811)	(505)
Noncurrent liabilities	(390)	(133)
Total mark-to-market energy contract liabilities	(1,201)	(638)
Total mark-to-market energy contract net assets (liabilities)	\$ (427)	\$(216)

The majority of Generation's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line

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exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, region and product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of March 31, 2004 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

The following table, which presents maturity and source of fair value of mark-to-market energy contract net liabilities, provides two fundamental pieces of information. First, the table provides the source of fair value used in determining the carrying amount of Generation's total mark-to-market asset or liability. Second, this table provides the maturity, by year, of Generation's net assets/liabilities, giving an indication of when these mark-to-market amounts will settle and either generate or require cash.

	Maturities Within					Total Fair Value
	2004	2005	2006	2007	2008 and Beyond	
<i>Normal operations, qualifying cash-flow hedge contracts(a):</i>						
Actively quoted prices	\$ 47	\$ 1	\$ —	\$—	\$ —	\$ 48
Prices provided by other external sources	(361)	(177)	(31)	(7)	—	(576)
Total	\$(314)	\$(176)	\$(31)	\$(7)	\$ —	\$(528)
<i>Normal operations, other derivative contracts(b):</i>						
Actively quoted prices	\$ 36	\$ 1	\$ —	\$—	\$ —	\$ 37
Prices provided by other external sources	(71)	8	1	—	—	(62)
Prices based on model or other valuation methods	14	(5)	15	13	89	126
Total	\$ (21)	\$ 4	\$ 16	\$13	\$ 89	\$ 101

- (a) Mark-to-market gains and losses on contracts that qualify as cash-flow hedges are recorded in other comprehensive income.
- (b) Mark-to-market gains and losses on other non-trading derivative contracts that do not qualify as cash-flow hedges are recorded in earnings.

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The table below provides details of effective cash-flow hedges under SFAS No. 133 included in the balance sheet as of March 31, 2004. The table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place; however, since under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of accumulated other comprehensive income related to cash-flow hedges for the three months ended March 31, 2004, providing insight into the drivers of the changes (new hedges entered into during the period and changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest-rate hedging activities.

	Total Cash-Flow Hedge Other Comprehensive Income Activity, Net of Income Tax		
	Normal Operations and Hedging Activities	Interest Rate and Other Hedges(a)	Total Cash Flow Hedges
Accumulated OCI derivative loss at January 1, 2004	\$(133)	\$(13)	\$(146)
Changes in fair value	(266)	—	(266)
Reclassifications from OCI to net income	75	(4)	71
Exelon Energy Company opening balance	2	—	2
Sithe	—	(10)	(10)
	—	—	—
Accumulated OCI derivative loss at March 31, 2004	\$(322)	\$(27)	\$(349)

(a) Includes interest rate hedges at Generation.

## Credit Risk

### Generation

Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment. Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits and letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

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The following tables provide information on Generation's wholesale credit exposure, net of collateral, as of March 31, 2004. They further delineate that exposure by the credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The figures in the tables below do not include sales to Generation's affiliates or exposure through Independent System Operators, which are discussed below.

Rating <sup>(a)</sup>	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	\$ 98	\$ 15	\$ 83	1	\$ 18
Split rating	—	—	—	—	—
Non-investment grade	67	6	61	1	54
No external ratings					
Internally rated — investment grade	15	—	15	—	—
Internally rated — non-investment grade	1	—	1	—	—
	—	—	—	—	—
<b>Total</b>	<b>\$181</b>	<b>\$ 21</b>	<b>\$160</b>	<b>2</b>	<b>\$ 72</b>

(a) Table does not include credit risk associated with Generation's retail operations.

Rating <sup>(a)</sup>	Maturity of Credit Risk Exposure			Total Exposure Before Credit Collateral
	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	
Investment grade	\$ 87	\$ 11	\$ —	\$ 98
Split rating	—	—	—	—
Non-investment grade	67	—	—	67
No external ratings				
Internally rated — investment grade	15	—	—	15
Internally rated — non-investment grade	1	—	—	1
	—	—	—	—
<b>Total</b>	<b>\$170</b>	<b>\$ 11</b>	<b>\$ —</b>	<b>\$181</b>

(a) Table does not include credit risk associated with Generation's retail operations.

*Dynegy.* Generation is a counterparty to Dynegy, Inc. (Dynegy) in various energy transactions. The credit ratings of Dynegy are below investment grade. As of March 31, 2004, Generation has credit risk associated with Dynegy through Generation's investment in Sithe. Sithe is a 100% owner of the Independence generating station, a 1,028-MW gas-fired facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of March 31, 2004, Generation consolidated the assets and liabilities of Sithe in accordance with the provisions of FIN No. 46-R. As a result, Generation has recorded an asset of \$156 million on its Consolidated Balance Sheets related to the fair market value of the financial swap agreement with Dynegy that is marked-to-market under the terms of SFAS No. 133, "Accounting for Derivatives and Hedging Activities." If Dynegy were unable to fulfill the terms of this agreement, Generation would be required to impair this financial swap asset. Exelon estimates, as a 50% owner of Sithe, that the impairment would result in an after-tax reduction of its net income of approximately \$28 million.

In addition to the impairment of the financial swap asset, if Dynegy were unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation would likely incur a further impairment associated with the Independence plant. Depending upon the timing of Dynegy's failure to fulfill its obligations and the outcome of any restructuring initiatives, Generation could realize an after-tax charge of

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up to \$50 million. In the event of a sale of Generation's investment in Sithe to a third party, proceeds from the sale could be negatively affected by up to \$84 million, which would represent an after-tax loss of up to \$50 million. Additionally, the future economic value of AmerGen's purchased power arrangement with Illinois Power Company (Illinois Power), a subsidiary of Dynegy, could be affected by events related to Dynegy's financial condition. In February 2004, Dynegy announced an agreement to sell Illinois Power to a third party, which, upon closing of the transaction, would reduce Generation's credit risk associated with Dynegy.

Additionally, the future economic value of AmerGen's PPA with Illinois Power could be affected by events related to Dynegy's financial condition. In February 2004, Dynegy announced an agreement to sell Illinois Power to a third party, which, upon closing of the transaction, would reduce Generation's credit risk associated with Dynegy.

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

*ISOs.* Generation participates in the following established, real-time energy markets, which are administered by ISOs: PJM, ISO New England, New York ISO, California ISO, Midwest ISO, Inc., Southwest Power Pool, Inc. and Texas, which is administered by the Electric Reliability Council of Texas. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets that are operated by the ISOs. In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by the ISOs, the ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the ISOs may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on our financial condition, results of operations or net cash flows.

## **Interest Rate Risk**

### ***ComEd***

ComEd uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Interest-rate swaps may be used to adjust exposure when deemed appropriate based upon market conditions. ComEd also utilizes forward-starting interest-rate swaps and treasury rate locks to lock in interest rate levels in anticipation of future financing. These strategies are employed to achieve a lower cost of capital. At March 31, 2004, ComEd did not have any interest-rate swaps designated as cash-flow hedges.

ComEd has entered into fixed-to-floating interest-rate swaps in order to maintain its targeted percentage of variable-rate debt associated with fixed-rate debt issuances in the aggregate amount of \$485 million. At March 31, 2004, these interest-rate swaps, designated as fair-value hedges, had an aggregate fair market value of \$37 million based on the present value difference between the contract and market rates at March 31, 2004. If these derivative instruments had been terminated at March 31, 2004, this estimated fair value represents the amount that would be paid by the counterparties to ComEd.

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The aggregate fair value of the interest-rate swaps designated as fair-value hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at March 31, 2004 is estimated to be \$42 million in ComEd's favor. If the derivative instrument had been terminated at March 31, 2004, this estimated fair value represents the amount the counterparties would pay ComEd.

The aggregate fair value of the interest-rate swaps designated as fair-value hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at March 31, 2004 is estimated to be \$31 million in ComEd's favor. If the derivative instrument had been terminated at March 31, 2004, this estimated fair value represents the amount the counterparties would pay ComEd.

In April 2004, ComEd settled these interest-rate swaps designated as fair-value hedges for net proceeds of approximately \$32 million. The proceeds will be amortized as a reduction to interest expense over the remaining life of the related debt.

### ***PECO***

In March 2004, PECO entered into a forward-starting interest rate swap in the aggregate amount of \$75 million to lock in interest rate levels in anticipation of a future financing. The debt issuance that this swap was hedging was considered probable in March 2004 and closed in April 2004; therefore, PECO accounted for this interest-rate swap transaction as a hedge. At March 31, 2004, this swap had an aggregate fair market value of less than \$1 million based on the present value difference between the contract and market rates at March 31, 2004. If the derivative instrument had been terminated at March 31, 2004, this estimated fair value represents the amount the counterparties would pay PECO.

The aggregate fair value of the interest-rate swap designated as a cash-flow hedge that would have resulted from a hypothetical 50 basis point decrease in the spot yield at March 31, 2004 is estimated to be \$6 million in the counterparty's favor. If the derivative instrument had been terminated at March 31, 2004, this estimated fair value represents the amount PECO would pay the counterparty.

The aggregate fair value of the interest-rate swap designated as a cash-flow hedge that would have resulted from a hypothetical 50 basis point increase in the spot yield at March 31, 2004 is estimated to be \$6 million in PECO's favor. If the derivative instrument had been terminated at March 31, 2004, this estimated fair value represents the amount the counterparty would pay PECO.

In April 2004, PECO settled this interest-rate swap designated as a cash-flow hedge for net proceeds of approximately \$5 million. The proceeds were recorded in other comprehensive income and are being amortized over the life of the debt issuance.

### ***Generation***

Generation uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Generation also uses interest-rate swaps when deemed appropriate to adjust exposure based upon market conditions. These strategies are employed to achieve a lower cost of capital. As of March 31, 2004, a hypothetical 10% increase in the interest rates associated with variable-rate debt would not have a material impact on Generation's pre-tax earnings.

Under the terms of the Boston Generating Facility, Boston Generating was required to effectively fix the interest rate on 50% of borrowings under the facility through its maturity in 2007. In January 2004, the counterparties terminated the interest-rate swaps with Boston Generating. The total net value of these swaps as of the respective termination dates was \$82 million, which is a net payable to the counterparties. The Boston Generating Facility and the related cost of interest rate swaps are non-recourse to Exelon and Generation and an event of default under the Boston Generating Facility does not constitute an event of default under any other of Exelon's debt instruments or the debt instruments of Exelon's subsidiaries.

## Equity Price Risk

### *Generation*

Generation maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of decommissioning its nuclear plants. As of March 31, 2004, decommissioning trust funds are reflected at fair value on Generation's Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$291 million reduction in the fair value of the trust assets.

## Item 4. Controls and Procedures

During the first quarter of 2004, each registrant's management, including its principal executive officer and principal financial officer, evaluated that registrant's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in that registrant's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed by each registrant to ensure that (a) material information relating to that registrant, including its consolidated subsidiaries, is made known to that registrant's management, including its principal executive officer and principal financial officer, by other employees of that registrant and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Each registrant's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. A registrant's access and ability to apply its disclosure controls and procedures to unconsolidated entities and entities that are consolidated under FIN No. 46-R may be more limited than is the case for majority-owned subsidiaries.

Accordingly, as of March 31, 2004, the principal executive officer and principal financial officer of each registrant concluded that such registrant's disclosure controls and procedures were effective to accomplish their objectives. Each registrant continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

### ComEd

See "Retail Rate Law" within the litigation section of Note 13 of the Condensed Combined Notes to Consolidated Financial Statements for a discussion of legal proceeding developments.

### Generation

See "Raytheon and Mitsubishi Litigation," "Clean Air Act" and "Oyster Creek" within the litigation section of Note 13 of the Condensed Combined Notes to Consolidated Financial Statements for a discussion of legal proceeding developments.

**Item 3. Defaults Upon Senior Securities**

(a) *Generation*

See “Boston Generating Facility” of Note 7 of the Condensed Combined Notes to Consolidated Financial Statements for a description of the event of default under the Boston Generating Facility.

**Item 5. Other Information**

(a) *ComEd*

See Note 6 of the Condensed Combined Notes to Consolidated Financial Statements for a discussion of regulatory developments.

(b) *Exelon, ComEd, PECO and Generation*

None.

**Item 6. Exhibits and Reports on Form 8-K**

(a) *Exhibits:*

10.1 — Michael B. Bemis separation letter, dated December 19, 2003. Filed on behalf of ComEd and PECO.

Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 filed by the following officers for the following companies:

31-1	—	Filed by John W. Rowe for Exelon Corporation
31-2	—	Filed by Robert S. Shapard for Exelon Corporation
31-3	—	Filed by John L. Skolds for Commonwealth Edison Company
31-4	—	Filed by J. Barry Mitchell for Commonwealth Edison Company
31-5	—	Filed by John L. Skolds for PECO Energy Company
31-6	—	Filed by J. Barry Mitchell for PECO Energy Company
31-7	—	Filed by Oliver D. Kingsley Jr. for Exelon Generation Company, LLC
31-8	—	Filed by J. Barry Mitchell for Exelon Generation Company, LLC

Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes — Oxley Act of 2002) as to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 filed by the following officers for the following companies:

32-1	—	Filed by John W. Rowe for Exelon Corporation
32-2	—	Filed by Robert S. Shapard for Exelon Corporation
32-3	—	Filed by John L. Skolds for Commonwealth Edison Company
32-4	—	Filed by J. Barry Mitchell for Commonwealth Edison Company
32-5	—	Filed by John L. Skolds for PECO Energy Company
32-6	—	Filed by J. Barry Mitchell for PECO Energy Company
32-7	—	Filed by Oliver D. Kingsley Jr. for Exelon Generation Company, LLC
32-8	—	Filed by J. Barry Mitchell for Exelon Generation Company, LLC



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### (b) Reports on Form 8-K:

Exelon, ComEd, PECO and/or Generation filed Current Reports on Form 8-K during the three months ended March 31, 2004 regarding the following items:

<b>Date of Earliest Event Reported</b>	<b>Description of Item Reported</b>
January 27, 2004	“ITEM 5. OTHER EVENTS” filed for Exelon announcing the declaration of a quarterly dividend and a 2-for-1 stock split.
January 29, 2004	“ITEM 5. OTHER EVENTS” filed for Exelon announcing the election of Honorable Nelson A. Diaz to the board of directors.
February 20, 2004	“ITEM 5. OTHER EVENTS” filed for Exelon regarding certain financial information of Exelon Corporation and Subsidiary Companies. The exhibits under “ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS” filed for Exelon include Consent of the Independent Public Accountants, Selected Financial Data, Market for Registrant’s Common Equity and Related Stockholder Matters, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements and Supplementary Data.
February 23, 2004	“ITEM 5. OTHER EVENTS” filed for Exelon and Generation regarding a settlement with the lenders under the Boston Generating Facility and the resolution of certain disputes associated with the projects of Boston Generating.
February 26, 2004	“ITEM 5. OTHER EVENTS” filed for Exelon regarding a structured, prearranged trading plan established by John W. Rowe, Chairman and Chief Executive Officer of Exelon.

**SIGNATURES**

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**EXELON CORPORATION**

/s/ JOHN W. ROWE

\_\_\_\_\_  
John W. Rowe

Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ ROBERT S. SHAPARD

\_\_\_\_\_  
Robert S. Shapard

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ MATTHEW F. HILZINGER

\_\_\_\_\_  
Matthew F. Hilzinger

Vice President and Corporate Controller  
(Principal Accounting Officer)

April 28, 2004

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COMMONWEALTH EDISON COMPANY**

/s/ JOHN L. SKOLDS

\_\_\_\_\_  
John L. Skolds

President, Exelon Energy Delivery  
(Principal Executive Officer)

/s/ J. BARRY MITCHELL

\_\_\_\_\_  
J. Barry Mitchell

Senior Vice President, Treasurer and Chief Financial Officer  
(Principal Financial Officer)

/s/ DUANE M. DESPARTE

\_\_\_\_\_  
Duane M. DesParte

Vice President and Controller, Exelon Energy Delivery  
(Principal Accounting Officer)

/s/ FRANK M. CLARK

\_\_\_\_\_  
Frank M. Clark

President, ComEd

April 28, 2004



Exelon Corporation

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

December 19, 2003

Michael B. Bemis

263 Eastbrooke Street  
Jackson Hinds, MS 39216

Dear Michael:

This letter will confirm our mutual understanding concerning your continued employment with Exelon Corporation.

You have agreed to remain in your current positions as Senior Vice President, Exelon Corporation and President, Exelon Energy Delivery Company, LLC, until January 31, 2004. During this period, you will continue to devote your full attention and time to Exelon's business and affairs, and use your best efforts in the performance of your duties. The other current terms and conditions of your employment will also remain in effect, with the changes noted below.

1. Your current annual base salary of \$450,000 will remain in effect for the duration of your employment.

2. Your 2003 annual incentive award target (65% of base salary) and performance share target (6,603 shares) will remain in effect, and payment of your earned awards will be made at the time such payments are made to other senior executives. You will not be eligible for annual or long-term incentive awards for 2004, nor a stock option grant since vesting would occur after your departure.

3. You will resign effective February 1, 2004 from all your positions with Exelon Corporation and its affiliates. Upon your resignation, you will receive the following benefits:

a. A lump sum severance payment of \$450,000, representing one year's base salary;

b. A fully vested award of 15,000 shares of Exelon Corporation common stock, representing final payment of your special incentive award program with respect to the Sithe transition;

c. Continued health care and life insurance coverage for a period of one year, at the same cost charged to active senior executives, with coverage under COBRA available thereafter for the remaining statutory period;

d. Reimbursement of reasonable expenses for personal financial counseling, income tax preparation and estate planning services through December 31, 2004 in accordance with Exelon's policies for senior executives; and

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Michael B. Bemis

December 19, 2003

Page 2

e. Continued directors and officers liability coverage for a period of six years. These benefits are offered in lieu of any other separation benefits to which you might otherwise be entitled upon a termination of employment, and your entitlement to these benefits is subject to your prompt execution of the attached release following your resignation. In the event you resign your employment prior to January 31, 2004, you will not be eligible for any separation benefits. If Exelon relieves you of your duties prior to January 31, 2004, you will remain on the payroll until your resignation on January 31, 2004.

4. Upon your resignation, you will receive payment for any accrued but unpaid salary and vacation, and any outstanding, unexercised stock options will remain exercisable, to the extent then vested, for ninety days.

5. Exelon will continue to reimburse your lease payments on your current apartment in Philadelphia through August 31, 2004.

6. You will remain subject to the Exelon Corporation Restrictive Covenants for a two-year period after your resignation. However, Exelon will not seek to enforce the non-competition provisions of these covenants in situations where it does not reasonably believe your acceptance of a position would be potentially adverse to its interests.

7. You will not make or cause to be made any statements that disparage or accuse Exelon Corporation or its affiliates, directors, officers or employees of misconduct or unlawful behavior, and Exelon Corporation will use reasonable efforts to ensure its officers, directors and official spokespersons do make or cause to be made any statements that disparage or accuse you of misconduct or unlawful behavior. These prohibitions will not apply to truthful testimony as a witness or compliance with other legal obligations.

8. All payments and other benefits hereunder will be subject to reduction for applicable federal, state and local tax withholding.

Please confirm your acceptance of this arrangement by signing this letter in the space provided below and returning this letter to me at your earliest convenience.

Very truly yours,

By:

/s/ S. GARY SNODGRASS

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

AGREED AND ACCEPTED BY:

/s/ MICHAEL B. BEMIS

---

Michael B. Bemis

Date: 12/23/03

cc: John W. Rowe

Oliver D. Kingsley, Jr.

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## WAIVER AND RELEASE

In consideration for receiving the benefits and severance pay under the letter agreement dated December 19, 2003 between Exelon Corporation (the "Company") and Michael B. Bemis (the "Executive") dated as of December 19, 2003, (the "Agreement"), the Executive hereby agrees as follows:

1. Release. Except with respect to the Company's obligations under the Agreement, the Executive, on behalf of himself and his heirs, executors, assigns, agents, legal representatives and personal representatives, hereby releases, acquits and forever discharges the Company, its agents, subsidiaries, affiliates, and their respective officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, foreseen or unforeseen, disclosed and undisclosed, suspected and unsuspected, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the execution of this Waiver and Release, including but not limited to any and all such claims and demands directly or indirectly arising out of or in any way connected with the Executive's employment or other service with the Company, or any of its subsidiaries or affiliates; the Executive's termination of employment and other service with the Company or any of its subsidiaries or affiliates. This Waiver and Release does not apply to the payment of any benefits to which the Executive may be entitled under a Company-sponsored tax qualified savings plan.

2. Time to Consider; Revocation. The Executive has read this Waiver and Release, and understands its legal and binding effect, including that by signing and not revoking this Waiver and Release the Executive waives and releases any and all claims under the Age Discrimination in Employment Act of 1967, as amended, including but not limited to the Older Workers Benefits Protection Act. The Executive has had the opportunity to consult legal counsel or other advisors prior to signing it, and understands that he may revoke it within seven (7) days after signing it. The Executive understands that this Waiver and Release will not be effective until after the seven-day period has expired and no consideration will be due the Executive if the Executive revokes it.

3. Limitation. Nothing in this Waiver and Release shall be construed to prohibit the Executive from communicating with, including testifying in any administrative proceeding before, the Nuclear Regulatory Commission, the United States Department of Labor, the Securities Exchange Commission or from otherwise addressing issues related to nuclear safety with any party or taking any other action protected under Section 211 of the Energy Reorganization Act; provided, however, that if the Executive is entitled under Section 211 of the Energy Reorganization Act to pursue a claim, complaint or charge seeking damages, costs or fees, the Executive agrees that the consideration provided to the Executive pursuant to this Agreement shall be fully inclusive of all such damages, costs and fees that could have been awarded to the Executive, that such consideration is being paid in full and that the Executive under no circumstances shall be entitled to compensation of any kind from the Company or any of the other parties released hereunder not expressly provided for pursuant to this Agreement.

IN WITNESS WHEREOF, the Executive has executed this Waiver and Release as of the date specified below.

/s/ MICHAEL B. BEMIS

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Michael B. Bemis

Date: 12/23/03

**CERTIFICATION EXHIBITS**

**Exhibit 31-1**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, John W. Rowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exelon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ JOHN W. ROWE

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*Chairman and Chief Executive Officer  
(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, Robert S. Shapard, certify that:

1. I have reviewed this report on Form 10-Q of Exelon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ ROBERT S. SHAPARD

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*Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)*



**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, John L. Skolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commonwealth Edison Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ JOHN L. SKOLDS

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*President, Exelon Energy Delivery  
(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, J. Barry Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commonwealth Edison Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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*Senior Vice President, Treasurer and  
Chief Financial Officer  
(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, John L. Skolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PECO Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ JOHN L. SKOLDS

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*President, Exelon Energy Delivery  
(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, J. Barry Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PECO Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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*Senior Vice President, Treasurer and  
Chief Financial Officer  
(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, Oliver D. Kingsley Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exelon Generation Company, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ OLIVER D. KINGSLEY JR.

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*Chief Executive Officer and President  
(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

I, J. Barry Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exelon Generation Company, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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*Senior Vice President, Treasurer and  
Chief Financial Officer  
(Principal Financial Officer)*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Corporation for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: April 28, 2004

/s/ JOHN W. ROWE

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John W. Rowe  
*Chairman and Chief Executive Officer*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Corporation for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: April 28, 2004

/s/ ROBERT S. SHAPARD

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Robert S. Shapard  
*Executive Vice President and  
Chief Financial Officer*



**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Commonwealth Edison Company for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: April 28, 2004

/s/ JOHN L. SKOLDS

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John L. Skolds  
*President*  
*Exelon Energy Delivery*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Commonwealth Edison Company for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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J. Barry Mitchell

*Senior Vice President, Treasurer and  
Chief Financial Officer*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of PECO Energy Company for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: April 28, 2004

/s/ JOHN L. SKOLDS

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John L. Skolds  
*President*  
*Exelon Energy Delivery*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of PECO Energy Company for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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J. Barry Mitchell  
*Senior Vice President, Treasurer and  
Chief Financial Officer*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Generation Company, LLC for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: April 28, 2004

/s/ OLIVER D. KINGSLEY JR.

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Oliver D. Kingsley Jr.  
*Chief Executive Officer and President*

**Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code**

The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Generation Company, LLC for the quarterly period ended March 31, 2004, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: April 28, 2004

/s/ J. BARRY MITCHELL

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J. Barry Mitchell  
*Senior Vice President, Treasurer and  
Chief Financial Officer*