

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, 2002  
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) 765-8200	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 , except for Exelon Generation Company, LLC which became an effective registrant on April 24, 2002.

The number of shares outstanding of each registrant's common stock as of May 3, 2002 was as follows:

Exelon Corporation Common Stock, without par value	322,006,807
Commonwealth Edison Company Common Stock, \$12.50 par value	127,016,382
PECO Energy Company Common Stock, without par value	170,478,507
Exelon Generation Company, LLC	not applicable

TABLE OF CONTENTS

Page No.		
	Filing Format	3
	Forward-Looking Statements	3
PART I.	FINANCIAL INFORMATION	4
ITEM 1.	FINANCIAL STATEMENTS	4
	Exelon Corporation	
	Condensed Consolidated Statements of Income and Comprehensive Income	5
	Condensed Consolidated Balance Sheets	6
	Condensed Consolidated Statements of Cash Flows	8
	Commonwealth Edison Company	
	Condensed Consolidated Statements of Income and Comprehensive Income	9
	Condensed Consolidated Balance Sheets	10
	Condensed Consolidated Statements of Cash Flows	12
	PECO Energy Company	
	Condensed Consolidated Statements of Income and Comprehensive Income	13
	Condensed Consolidated Balance Sheets	14
	Condensed Consolidated Statements of Cash Flows	16
	Exelon Generation Company, LLC	
	Condensed Consolidated Statements of Income and Comprehensive Income	17
	Condensed Consolidated Balance Sheets	18
	Condensed Consolidated Statements of Cash Flows	20
	Notes to Condensed Consolidated Financial Statements	21
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	40

Exelon Corporation	40
Commonwealth Edison Company	54
PECO Energy Company	61
Exelon Generation Company, LLC	69

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	74
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PART II. OTHER INFORMATION	78
ITEM 1. LEGAL PROCEEDINGS	78
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	78
ITEM 5. OTHER INFORMATION	78
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	80

SIGNATURES	83
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Filing Format

This combined Form 10-Q is being filed separately by Exelon Corporation, Commonwealth Edison Company, PECO Energy Company and Exelon Generation Company, LLC (Registrants). Information contained herein relating to any individual registrant has been 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 that are subject to risks and uncertainties. The factors that could cause actual results to differ materially include those discussed herein as well as those listed in Note 7 of Notes to Condensed Consolidated Financial Statements, those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Outlook" in Exelon Corporation's 2001 Annual Report, and other factors discussed in filings with the Securities and Exchange Commission 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. The Registrants undertake no obligation to publicly release any revision to forward-looking statements to reflect events or circumstances after the date of this Report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(in millions, except per share data)	Three Months Ended March 31,	
	2002	2001
OPERATING REVENUES	\$ 3,870	\$ 3,823
OPERATING EXPENSES		
Fuel and Purchased Power	1,621	1,320
Purchase Power from Affiliate	56	10
Operating and Maintenance	1,067	1,058
Depreciation and Amortization	335	378
Taxes Other Than Income	186	168
Total Operating Expense	3,265	2,934
OPERATING INCOME	605	889
OTHER INCOME AND DEDUCTIONS		
Interest Expense	(249)	(292)
Distributions on Preferred Securities of Subsidiaries	(11)	(11)
Equity in Earnings of Unconsolidated Affiliates, net	13	18
Other, net	28	55
Total Other Income and Deductions	(219)	(230)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	386	659
INCOME TAXES	148	272
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	238	387
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes of \$90 and \$8 for the three months ended March 31, 2002 and 2001, respectively)	(230)	12
NET INCOME	8	399
OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)		
SFAS 133 Transition Adjustment	--	44
Cash Flow Hedge Fair Value Adjustment	(58)	(21)
Unrealized Gain (Loss) on Marketable Securities, net	(15)	(124)
Total Other Comprehensive Income (Loss)	(73)	(101)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (65)	\$ 298
AVERAGE SHARES OF COMMON STOCK OUTSTANDING - Basic	321	320
AVERAGE SHARES OF COMMON STOCK OUTSTANDING - Diluted	323	324
EARNINGS PER AVERAGE COMMON SHARE:		
BASIC:		
Income Before Cumulative Effect of Changes in Accounting Principles	\$ 0.74	\$ 1.21
Cumulative Effect of Changes in Accounting Principles	(0.72)	0.04
Net Income	\$ 0.02	\$ 1.25
DILUTED:		
Income Before Cumulative Effect of Changes in Accounting Principles	\$ 0.73	\$ 1.19
Cumulative Effect of Changes in Accounting Principles	(0.71)	0.04
Net Income	\$ 0.02	\$ 1.23
DIVIDENDS PER COMMON SHARE	\$ 0.44	\$ 0.55

See Notes to Condensed Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr style="border-top: 1px dashed black;"/>		
ASSETS		
<hr style="border-top: 1px dashed black;"/>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 696	\$ 485
Restricted Cash	237	372
Accounts Receivable, net	1,962	2,115
Receivable from Unconsolidated Affiliate	73	44
Inventories, at average cost	457	471
Other	482	295
<hr style="border-top: 1px dashed black;"/>		
Total Current Assets	3,907	3,782
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PROPERTY, PLANT AND EQUIPMENT, NET	14,059	13,781
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DEFERRED DEBITS AND OTHER ASSETS		
Regulatory Assets	6,338	6,423
Nuclear Decommissioning Trust Funds	3,161	3,165
Investments	1,782	1,666
Goodwill, net	4,971	5,335
Other	685	708
<hr style="border-top: 1px dashed black;"/>		
Total Deferred Debits and Other Assets	16,937	17,297
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TOTAL ASSETS	\$ 34,903	\$ 34,860
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See Notes to Condensed Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr style="border-top: 1px dashed black;"/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable	\$ 438	\$ 360
Long-Term Debt Due within One Year	1,613	1,406
Accounts Payable	1,078	964
Accrued Expenses	1,133	1,182
Other	499	505
<hr style="border-top: 1px dashed black;"/>		
Total Current Liabilities	4,761	4,417
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LONG-TERM DEBT	12,609	12,876
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred Income Taxes	4,335	4,303
Unamortized Investment Tax Credits	312	316
Nuclear Decommissioning Liability for Retired Plants	1,367	1,353
Pension Obligation	318	334
Non-Pension Postretirement Benefits Obligation	860	847
Spent Nuclear Fuel Obligation	847	843
Other	830	728
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Total Deferred Credits and Other Liabilities	8,869	8,724
<hr style="border-top: 1px dashed black;"/>		
PREFERRED SECURITIES OF SUBSIDIARIES	613	613
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock	6,950	6,930
Deferred Compensation	(1)	(2)
Retained Earnings	1,073	1,200
Accumulated Other Comprehensive Income	29	102
<hr style="border-top: 1px dashed black;"/>		
Total Shareholders' Equity	8,051	8,230
<hr style="border-top: 1px dashed black;"/>		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 34,903	\$ 34,860
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See Notes to Condensed Consolidated Financial Statements

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

(in millions) Three Months Ended March 31,  
2002 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$ 8	\$ 399
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and Amortization	427	490
Cumulative Effect of a Change in Accounting Principle (net of income taxes)	230	(12)
Provision for Uncollectible Accounts	29	30
Deferred Income Taxes	67	65
Deferred Energy Costs	34	(29)
Equity in (Earnings) Losses of Unconsolidated Affiliates, net	(13)	(18)
Net Realized Losses on Nuclear Decommissioning Trust Funds	10	15
Other Operating Activities	111	(33)
Changes in Working Capital:		
Accounts Receivable	58	57
Inventories	13	60
Accounts Payable, Accrued Expenses and Other Current Liabilities	(7)	(164)
Other Current Assets	(134)	(63)

Net Cash Flows provided by Operating Activities 833 797

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in Plant	(560)	(447)
Acquisitions - Enterprises, net of cash acquired	--	(38)
Proceeds from Nuclear Decommissioning Trust Funds	580	333
Investment in Nuclear Decommissioning Trust Funds	(605)	(354)
Note Receivable from Unconsolidated Affiliate	(46)	--
Other Investing Activities	(6)	(11)

Net Cash Flows used in Investing Activities (637) (517)

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of Long-Term Debt	408	827
Retirement of Long-Term Debt	(471)	(1,029)
Change in Short-Term Debt	78	257
Dividends on Common Stock	(141)	(176)
Change in Restricted Cash	135	104
Proceeds from Stock Option Exercises	18	36
Other Financing Activities	(12)	--

Net Cash Flows provided by Financing Activities 15 19

INCREASE IN CASH AND CASH EQUIVALENTS 211 299

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 485 526

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 696 \$ 825

SUPPLEMENTAL CASH FLOW INFORMATION

Noncash Investing and Financing Activities:		
Regulatory Asset Fair Value Adjustment	--	\$ 347

See Notes to Condensed Consolidated Financial Statements



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

(in millions)	Three Months Ended March 31,	
	2002	2001
<hr/>		
OPERATING REVENUES		
Operating Revenues	\$1,304	\$ 1,404
Operating Revenues from Affiliates	11	42
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Total Operating Revenues	1,315	1,446
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OPERATING EXPENSES		
Purchased Power	6	1
Purchased Power from Affiliate	532	608
Operating and Maintenance	195	186
Operating and Maintenance from Affiliates	42	32
Depreciation and Amortization	135	167
Taxes Other Than Income	73	72
<hr/>		
Total Operating Expense	983	1,066
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OPERATING INCOME	332	380
<hr/>		
OTHER INCOME AND DEDUCTIONS		
Interest Expense	(126)	(141)
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities	(7)	(7)
Interest Income from Affiliates	8	28
Other, net	6	9
<hr/>		
Total Other Income and Deductions	(119)	(111)
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INCOME BEFORE INCOME TAXES	213	269
INCOME TAXES	84	123
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NET INCOME ON COMMON STOCK	\$ 129	\$ 146
<hr/>		
COMPREHENSIVE INCOME (LOSS)		
Net Income	\$ 129	\$ 146
Other Comprehensive Income (Loss) (net of income taxes):		
Cash Flow Hedge Fair Value Adjustment	(2)	--
Unrealized Gain (Loss) on Marketable Securities	--	(4)
<hr/>		
Total Other Comprehensive Income (Loss)	(2)	(4)
<hr/>		
TOTAL COMPREHENSIVE INCOME	\$ 127	\$ 142
<hr/>		

See Notes to Condensed Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr/>		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 82	\$ 23
Restricted Cash	61	41
Accounts Receivable, net	821	832
Receivables from Affiliates	159	95
Inventories, at average cost	46	56
Deferred Income Taxes	30	52
Other	15	15
<hr/>		
Total Current Assets	1,214	1,114
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PROPERTY, PLANT AND EQUIPMENT, NET	7,433	7,351
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory Assets	646	667
Investments	56	64
Goodwill, net	4,895	4,902
Receivables from Affiliates	1,314	1,314
Other	290	304
<hr/>		
Total Deferred Debits and Other Assets	7,201	7,251
<hr/>		
TOTAL ASSETS	\$ 15,848	\$ 15,716
<hr/>		

See Notes to Condensed Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
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LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due within One Year	\$ 849	\$ 849
Accounts Payable	194	144
Accrued Expenses	331	374
Payables to Affiliates	257	307
Other	205	212
<hr/>		
Total Current Liabilities	1,836	1,886
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LONG-TERM DEBT	5,954	5,850
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred Income Taxes	1,710	1,671
Unamortized Investment Tax Credits	54	55
Pension Obligation	157	151
Non-Pension Postretirement Benefits Obligation	147	146
Payables to Affiliates	282	297
Other	248	248
<hr/>		
Total Deferred Credits and Other Liabilities	2,598	2,568
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COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY THE COMPANY'S SUBORDINATED DEBT SECURITIES	329	329
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock	2,048	2,048
Preference Stock	7	7
Other Paid-in Capital	5,065	5,057
Receivable from Parent	(906)	(937)
Retained Earnings	268	257
Treasury Stock, at cost	(1,344)	(1,344)
Accumulated Other Comprehensive Income (Loss)	(7)	(5)
<hr/>		
Total Shareholders' Equity	5,131	5,083
<hr/>		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 15,848	\$ 15,716
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See Notes to Condensed Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2002	2001
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 129	\$ 146
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and Amortization	135	167
Provision for Uncollectible Accounts	11	7
Deferred Income Taxes	53	3
Other Operating Activities	36	19
Changes in Working Capital:		
Accounts Receivable	--	38
Inventories	10	8
Accounts Payable, Accrued Expenses and Other Current Liabilities	1	70
Changes in Receivables and Payables to Affiliates, net	(90)	33
Other Current Assets	--	1
	<hr/>	<hr/>
Net Cash Flows provided by Operating Activities	285	492
<hr/>		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Plant	(182)	(234)
Notes Receivable from Affiliate	--	48
Other Investing Activities	--	(3)
	<hr/>	<hr/>
Net Cash Flows used in Investing Activities	(182)	(189)
<hr/>		
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	400	--
Retirement of Long-Term Debt	(297)	(89)
Dividends on Common Stock	(118)	(63)
Change in Restricted Cash	(20)	(2)
Other Financing Activities	(9)	--
	<hr/>	<hr/>
Net Cash Flows used in Financing Activities	(44)	(154)
<hr/>		
INCREASE IN CASH AND CASH EQUIVALENTS	59	149
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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23	141
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 82	\$ 290
<hr/>		
SUPPLEMENTAL CASH FLOW INFORMATION Noncash Investing and Financing Activities:		
Net Assets Transferred as a result of Restructuring, net of Note Payable	\$ --	\$ 1,306
Receivable from Parent	\$ --	\$ 1,062
Regulatory Asset Fair Value Adjustment	\$ --	\$ 347

See Notes to Condensed Consolidated Financial Statements

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

(in millions)	Three Months Ended March 31,	
	2002	2001
<hr/>		
OPERATING REVENUES		
Operating Revenues	\$1,017	\$ 1,048
Operating Revenues from Affiliates	3	3
<hr/>		
Total Operating Revenues	1,020	1,051
<hr/>		
OPERATING EXPENSES		
Fuel and Purchased Power	183	244
Purchased Power from Affiliate	303	244
Operating and Maintenance	128	129
Operating and Maintenance from Affiliates	8	3
Depreciation and Amortization	112	101
Taxes Other Than Income	59	43
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Total Operating Expense	793	764
<hr/>		
OPERATING INCOME	227	287
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OTHER INCOME AND DEDUCTIONS		
Interest Expense	(95)	(105)
Interest Expense - Affiliate	--	(5)
Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company	(2)	(2)
Other, net	1	15
<hr/>		
Total Other Income and Deductions	(96)	(97)
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INCOME BEFORE INCOME TAXES	131	190
<hr/>		
INCOME TAXES	42	68
<hr/>		
NET INCOME	89	122
<hr/>		
Preferred Stock Dividends	(2)	(2)
NET INCOME ON COMMON STOCK	\$ 87	\$ 120
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OTHER COMPREHENSIVE INCOME		
Net Income	89	122
Other Comprehensive Income (Loss) (net of income taxes):		
SFAS 133 Transition Adjustment	--	40
Cash Flow Hedge Fair Value Adjustment	2	(18)
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Total Other Comprehensive Income	2	22
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TOTAL COMPREHENSIVE INCOME	\$ 91	\$ 144
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See Notes to Condensed Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr/>		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 31	\$ 32
Restricted Cash	170	323
Accounts Receivable, net	303	319
Receivables from Affiliates	6	8
Inventories, at average cost	44	79
Prepaid Taxes	133	1
Other	26	58
<hr/>		
Total Current Assets	713	820
<hr/>		
PROPERTY, PLANT AND EQUIPMENT, NET	4,075	4,047
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory Assets	5,692	5,756
Investments	24	24
Pension Asset	34	13
Other	81	85
<hr/>		
Total Deferred Debits and Other Assets	5,831	5,878
<hr/>		
TOTAL ASSETS	\$ 10,619	\$ 10,745
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See Notes to Condensed Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable	\$ 159	\$ 101
Payables to Affiliates	145	194
Long-Term Debt Due within One Year	752	548
Accounts Payable	50	54
Accrued Expenses	313	397
Deferred Income Taxes	27	27
Other	29	21
<hr/>		
Total Current Liabilities	1,475	1,342
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LONG-TERM DEBT	5,074	5,438
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred Income Taxes	2,985	2,938
Unamortized Investment Tax Credits	26	27
Non-Pension Postretirement Benefits Obligation	261	239
Payables to Affiliates	44	44
Other	114	110
<hr/>		
Total Deferred Credits and Other Liabilities	3,430	3,358
<hr/>		
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF A PARTNERSHIP, WHICH HOLDS SOLEY SUBORDINATED DEBENTURES OF THE COMPANY	128	128
MANDATORILY REDEEMABLE PREFERRED STOCK	19	19
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock	1,911	1,912
Receivable from Parent	(1,848)	(1,878)
Preferred Stock	137	137
Retained Earnings	272	270
Accumulated Other Comprehensive Income	21	19
<hr/>		
Total Shareholders' Equity	493	460
<hr/>		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 10,619	\$ 10,745
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See Notes to Condensed Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2002	2001
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CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 89	\$ 122
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and Amortization	112	101
Provision for Uncollectible Accounts	19	18
Deferred Income Taxes	46	55
Deferred Energy Costs	34	(29)
Other Operating Activities	2	8
Changes in Working Capital:		
Accounts Receivable	(3)	(53)
Changes in Receivables and Payables to Affiliates, net	(17)	(99)
Inventories	35	45
Accounts Payable, Accrued Expenses and Other Current Liabilities	(83)	(95)
Other Current Assets	(134)	(118)
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Net Cash Flows provided by (used in) Operating Activities	100	(45)
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CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Plant	(62)	(57)
Other Investing Activities	(3)	11
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Net Cash Flows used in Investing Activities	(65)	(46)
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CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of Long-Term Debt	(160)	(923)
Issuance of Long-Term Debt	--	805
Change in Short-Term Debt	58	173
Change in Payable to Affiliate	--	(46)
Dividends on Preferred and Common Stock	(87)	(47)
Change in Restricted Cash	153	106
Settlement of Interest Rate Swap Agreements	--	31
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Net Cash Flows provided by (used in) Financing Activities	(36)	99
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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1)	8
Cash Transferred in Restructuring	--	(31)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	32	49
<hr style="border-top: 1px dashed black;"/>		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 31	\$ 26
<hr style="border-top: 1px dashed black;"/>		
SUPPLEMENTAL CASH FLOW INFORMATION Noncash Investing and Financing Activities:		
Net Assets Transferred as a result of Restructuring,		
net of Receivable from Affiliates	\$ --	\$ 1,608
Contribution of Receivable from Parent	\$ --	\$ 1,983

See Notes to Condensed Consolidated Financial Statements



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

(in millions)	Three Months Ended March 31,	
	2002	2001
<hr/>		
OPERATING REVENUES		
Operating Revenues	\$1,083	\$ 914
Operating Revenues from Affiliates	892	714
<hr/>		
Total Operating Revenues	1,975	1,628
<hr/>		
OPERATING EXPENSES		
Fuel and Purchased Power	1,270	800
Purchased Power from Affiliates	72	18
Operating and Maintenance	428	397
Operating and Maintenance Expense from Affiliates	4	7
Depreciation and Amortization	63	92
Taxes Other Than Income	49	46
<hr/>		
Total Operating Expense	1,886	1,360
<hr/>		
OPERATING INCOME	89	268
<hr/>		
OTHER INCOME AND DEDUCTIONS		
Interest Expense	(17)	(18)
Interest Expense from Affiliates	--	(15)
Equity in Earnings of Unconsolidated Affiliates	23	26
Other, net	16	4
<hr/>		
Total Other Income and Deductions	22	(3)
<hr/>		
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	111	265
<hr/>		
INCOME TAXES	45	107
<hr/>		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	66	158
<hr/>		
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	13	12
<hr/>		
NET INCOME	\$ 79	\$ 170
<hr/>		
OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)		
Other Comprehensive Income (Loss):		
SFAS 133 Transition Adjustment	--	4
Unrealized Loss on Marketable Securities	(9)	(120)
Cash Flow Hedge Fair Value Adjustment	(74)	(1)
<hr/>		
Total Other Comprehensive Income (Loss)	(83)	(117)
<hr/>		
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (4)	\$ 53
<hr/>		

See Notes to Condensed Consolidated Financial Statements

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr/>		
ASSETS		
-----		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 355	\$ 224
Accounts Receivable, net	422	466
Receivables from Affiliates	241	339
Inventories, at average cost	343	307
Other	89	65
-----		
Total Current Assets	1,450	1,401
-----		
PROPERTY, PLANT AND EQUIPMENT, NET	2,173	2,003
DEFERRED DEBITS AND OTHER ASSETS		
Nuclear Decommissioning Trust Funds	3,161	3,165
Investments	904	859
Notes Receivable from Affiliates	277	291
Deferred Income Taxes	352	297
Other	188	223
-----		
Total Deferred Debits and Other Assets	4,882	4,835
-----		
TOTAL ASSETS	\$ 8,505	\$ 8,239
-----		

See Notes to Condensed Consolidated Financial Statements

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	March 31, 2002	December 31, 2001
<hr/>		
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due within One Year	\$ 5	\$ 4
Accounts Payable	675	585
Accrued Expenses	399	303
Deferred Income Taxes	7	7
Other	183	171
<hr/>		
Total Current Liabilities	1,269	1,070
<hr/>		
LONG-TERM DEBT	1,020	1,021
DEFERRED CREDITS AND OTHER LIABILITIES		
Unamortized Investment Tax Credits	232	234
Nuclear Decommissioning Liability	1,367	1,353
Pension Obligation	104	118
Non-Pension Postretirement Benefits Obligation	385	384
Spent Nuclear Fuel Obligation	847	843
Other	349	280
<hr/>		
Total Deferred Credits and Other Liabilities	3,284	3,212
<hr/>		
COMMITMENTS AND CONTINGENCIES		
MEMBER'S EQUITY		
Membership Interest	2,368	2,368
Undistributed Earnings	550	471
Accumulated Other Comprehensive Income	14	97
<hr/>		
Total Member's Equity	2,932	2,936
<hr/>		
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 8,505	\$ 8,239
<hr/>		

See Notes to Condensed Consolidated Financial Statements

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 79	\$ 170
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and Amortization	155	192
Cumulative Effect of a Change in Accounting Principle (net of income taxes)	(13)	(12)
Provision for Uncollectible Accounts	2	3
Deferred Income Taxes	(2)	(13)
Deferred Energy Costs	--	--
Equity in (Earnings) Losses of Unconsolidated Affiliates	(23)	(26)
Net Realized Losses on Nuclear Decommissioning Trust Funds	10	15
Other Operating Activities	40	(38)
Changes in Working Capital:		
Accounts Receivable	53	37
Changes in Receivables and Payables to Affiliates, net	144	12
Inventories	(37)	4
Accounts Payable, Accrued Expenses and Other Current Liabilities	127	35
Other Current Assets	(26)	(17)
<b>Net Cash Flows provided by (used in) Operating Activities</b>	<b>509</b>	<b>362</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in Plant	(288)	(118)
Proceeds from Nuclear Decommissioning Trust Funds	580	333
Investment in Nuclear Decommissioning Trust Funds	(605)	(354)
Note Receivable from Affiliate	(46)	--
Other Investing Activities	(20)	--
<b>Net Cash Flows used in Investing Activities</b>	<b>(379)</b>	<b>(139)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Retirement of Long-Term Debt	1	--
Distribution to Member	--	(36)
<b>Net Cash Flows provided by (used in) Financing Activities</b>	<b>1</b>	<b>(36)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>131</b>	<b>187</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>224</b>	<b>--</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 355</b>	<b>\$ 187</b>

See Notes to Condensed 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  
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in millions, except per share data, unless otherwise noted)

1. BASIS OF PRESENTATION (Exelon, ComEd, PECO and Generation)

The accompanying condensed consolidated financial statements as of March 31, 2002 and for the three months then ended are unaudited, but include all adjustments that Exelon Corporation (Exelon), Commonwealth Edison Company (ComEd), PECO Energy Company (PECO) and Exelon Generation Company, LLC (Generation) consider necessary for a fair presentation of their respective financial statements. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The year-end condensed consolidated balance sheet data were derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles. 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 and PECO included in or incorporated by reference in Item 8 of their Annual Report on Form 10-K for the year ended December 31, 2001 and the Notes to Consolidated Financial Statements in Generation's Form S-4 registration statement declared effective on April 24, 2002 by the Securities and Exchange Commission (SEC), (Generation's Form S-4). See ITEM 8. Exhibits and Reports on Form 8-K.

2. CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Exelon, ComEd, PECO and Generation)

In 2001, the Financial Accounting Standard Board (FASB) issued Statement of Accounting Standard (SFAS) No. 141, "Business Combinations" (SFAS No. 141), which requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. In addition, SFAS No. 141 requires that unamortized negative goodwill related to pre-July 1, 2001 purchases be recognized as a change in accounting principle concurrent with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). At December 31, 2001, AmerGen Energy Company, LLC (AmerGen), an equity-method investee of Generation, had \$43 million of negative goodwill, net of accumulated amortization, recorded on its balance sheet. Upon AmerGen's adoption of SFAS No. 141 in January 2002, Generation recognized its proportionate share of income of \$22 million (\$13 million, net of income taxes) as a cumulative effect of a change in accounting principle.

Exelon, ComEd and Generation adopted SFAS No. 142 as of January 1, 2002. SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. Exelon does not have significant other intangible assets recorded on its balance sheet. Under SFAS No. 142, goodwill is no longer subject to amortization; however, goodwill is subject to an assessment for impairment using a two-step fair value based test, the first step of which must be performed at least annually, or more frequently if events or

circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss is reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss is reflected as a cumulative effect of a change in accounting principle.

As of December 31, 2001, Exelon's Condensed Consolidated Balance Sheets reflected approximately \$5.3 billion in goodwill net of accumulated amortization, including \$4.9 billion of net goodwill related to the merger of Unicom and PECO recorded on ComEd's Consolidated Balance Sheets, with the remainder related acquisitions by Exelon Enterprises Company, LLC (Enterprises). The first step of the transitional impairment analysis indicated that ComEd's goodwill was not impaired but that an impairment did exist with respect to goodwill recorded in Enterprises' reporting units. Exelon's infrastructure services business (InfraSource), the energy services business (Exelon Services) and the competitive retail energy sales business (Exelon Energy) were determined to be those reporting units of Enterprises which had goodwill allocated to them. The second step of the analysis, which compared the fair value of each of Enterprises' reporting units' goodwill to the carrying value at December 31, 2001, indicated a total goodwill impairment of \$357 million (\$243 million, net of income taxes and minority interest). The fair value of the Enterprises' reporting units was determined using discounted cash flow models reflecting the expected range of future cash flow outcomes related to each of the Enterprises reporting units over the life of the model. These cash flows were discounted to 2002 using a risk-adjusted discount rate. The impairment was recorded as a cumulative effect of a change in accounting principle in the first quarter of 2002.

The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2002 are as follows:

	Energy Delivery	Enterprises	Total
Balance as of January 1, 2002	\$ 4,902	\$ 433	\$ 5,335
Impairment losses	--	(357)	(357)
Settlement of pre-merger income tax contingency	(7)	--	(7)
Balance as of March 31, 2002	\$ 4,895	\$ 76	\$ 4,971

The March 31, 2002 Energy Delivery goodwill relates to ComEd and the remaining Enterprises goodwill relates to the InfraSource and Exelon Energy reporting units. Consistent with SFAS No. 142, the of remaining goodwill will be reviewed for impairment on an annual basis or more frequently if significant events occur that could indicate that an impairment exists.

The components of the net transitional impairment loss recognized in the first quarter of 2002 as a cumulative effect of a change in accounting principle are as follows:

Exelon

Enterprises goodwill impairment (net of income taxes of \$103 million)	\$ (254)
Minority interest (net of income taxes of \$4 million)	11
Elimination of AmerGen negative goodwill (net of income taxes of \$9 million)	13
Total cumulative effect of a change in accounting principle	\$ (230)

Generation

Elimination of AmerGen negative goodwill (net of income taxes of \$9 million) recorded as cumulative effect of a change in accounting principle	\$ 13
---	-------

The following table sets forth Exelon's and ComEd's net income and earnings per common share for the three months ended March 31, 2002 and 2001, respectively, adjusted to exclude 2001 amortization expense related to goodwill that is no longer being amortized.

Exelon

	Three Months Ended March 31,	
	2002	2001
Reported income before cumulative effect of changes in accounting principles	\$ 238	\$ 387
Cumulative effect of changes in accounting principles	(230)	12
Reported net income	8	399
Goodwill amortization	--	39
Adjusted net income	\$ 8	\$ 438
Basic earnings per common share:		
Reported income before cumulative effect of changes in accounting principles	\$ 0.74	\$ 1.21
Cumulative effect of changes in accounting principles	(0.72)	0.04
Reported net income	0.02	1.25
Goodwill amortization	--	0.12
Adjusted net income	\$ 0.02	\$ 1.37
Diluted earnings per common share:		
Reported income before cumulative effect of changes in accounting principles	\$ 0.73	\$ 1.19
Cumulative effect of changes in accounting principles	(0.71)	0.04
Reported net income	0.02	1.23
Goodwill amortization	--	0.12
Adjusted net income	\$ 0.02	\$ 1.35

Three Months Ended March 31,

	2002	2001
Reported income before cumulative effect of a change in accounting principle	\$ 129	\$ 146
Cumulative effect of change in a accounting principle	--	--
Reported net income	129	146
Goodwill amortization	--	32
Adjusted net income	\$ 129	\$ 178

#### Generation

The cessation of the amortization of negative goodwill of AmerGen on January 1, 2002 did not have a material impact on Generation's reported net income for the three months ended March 31, 2002.

#### Exelon, PECO and Generation

On January 1, 2001, Generation recognized a non-cash gain of \$12 million, net of income taxes, in earnings and deferred a non-cash gain of \$4 million, net of income taxes, in accumulated other comprehensive income and PECO deferred a non-cash gain of \$40 million, net of income taxes, in accumulated other comprehensive income. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) applies to all derivative instruments and requires that such instruments be recorded on the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges.

#### 3. REGULATORY ISSUES (Exelon, ComEd and PECO)

On April 1, 2002, the Illinois Commerce Commission issued an interim order in ComEd's Delivery Services Rate Case. The order sets new delivery rates for residential customers choosing a new retail electric supplier or the Purchase Power Option (PPO) which allows the purchase of electric energy from ComEd at market-based rates. The new rates are effective May 1, 2002 when retail choice for residential customers begins. Traditional bundled rates - rates paid by residential customers that retain ComEd as their electricity supplier - are not affected by this Order and will remain frozen through 2004. The rates for business customers taking delivery services are not impacted by the order. The potential revenue impact of the interim order is not expected to be material in 2002.

As permitted by the Pennsylvania Electric Competition Act, the Pennsylvania Department of Revenue has calculated a 2002 Revenue Neutral Reconciliation (RNR) adjustment to the gross receipts tax rate in order to neutralize the impact of electric restructuring on its tax revenues. The 2002 RNR adjustment increases the gross receipts tax rate which will increase PECO's annual revenues and tax obligations by approximately \$50 million per year. In January 2002, the Pennsylvania Public Utility Commission (PUC) approved the RNR adjustment to the gross receipts tax rate collected from customers. Effective January 1, 2002, PECO implemented the change in the gross receipts tax rate.



4. EARNINGS PER SHARE (Exelon)

Diluted earnings per share are calculated by dividing net income by the weighted average shares of common stock outstanding, including shares issuable upon exercise of stock options outstanding under Exelon's stock option plans considered to be common stock equivalents. The following table shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per share (in millions):

	Three Months Ended March 31,	
	2002	2001
Average common shares outstanding	321	320
Assumed exercise of stock options	2	4
Average diluted common shares outstanding	323	324

5. SEGMENT INFORMATION (Exelon)

Exelon operates in three business segments: energy delivery, generation and enterprises. Energy delivery consists of the operations of ComEd and PECO. Beginning in 2002, Exelon evaluates the performance of its business segments on the basis of net income. Exelon's segment information for the three months ended March 31, 2002 as compared to the same period in 2001 and as of March 31, 2002 and December 31, 2001 is as follows:

	Energy Delivery	Generation	Enterprises	Corporate and Intersegment Eliminations	Consolidated
Revenues:					
2002	\$ 2,335	\$ 1,975	\$ 490	\$ (930)	\$ 3,870
2001	2,497	1,628	667	(969)	3,823
Net Income:					
2002	\$ 215	\$ 79	\$ (271)	\$ (15)	\$ 8
2001	266	170	(25)	(12)	399
Total Assets:					
March 31, 2002	\$ 26,467	\$ 8,505	\$ 1,373	\$ (1,442)	\$ 34,903
December 31, 2001	26,448	8,239	1,699	(1,526)	34,860

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Exelon, ComEd, PECO and Generation)

During the three months ended March 31, 2002 and 2001, Exelon recognized net losses in other comprehensive income relating to mark-to-market (MTM) adjustments of contracts designated as cash flow hedges as follows:

	ComEd	PECO	Generation	Enterprises	Exelon
2002	7	6	(122)	17	(92)
2001	--	--	(1)	--	(1)

During the three months ended March 31, 2002 and 2001, Generation recognized net gains of \$2 million and \$16 million, respectively, on power purchase and sale contracts not designated as cash flow hedges, in Operating Revenues and Fuel and Purchased Power Expense in the Condensed Consolidated Statements of Income and Comprehensive Income. During the three months ended March 31, 2002 and 2001, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted energy commodity transactions or forecasted financing transactions no longer being probable. During the three months ended March 31, 2002 and 2001, PECO reclassified no amount and a net gain of \$6 million, respectively, to other income in the Condensed Consolidated Statements of Income and Comprehensive Income, as a result of the discontinuance of cash flow hedges related to certain forecasted transactions that were no longer probable of occurring.

As of March 31, 2002, deferred net gains and (losses) on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months are as follows:

	ComEd	PECO	Generation	Enterprises	Exelon
2002	1	15	(7)	3	12

Amounts in accumulated other comprehensive income related to interest rate cash flows are reclassified into earnings when the forecasted interest payment occurs. Amounts in accumulated other comprehensive income related to energy commodity cash flows are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs.

Generation classifies investments in the trust accounts for decommissioning nuclear plants as available-for-sale. The following tables show the fair values, gross unrealized gains and losses and amortized costs bases for the securities held in these trust accounts.

March 31, 2002

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	\$ 1,651	\$ 150	\$ (257)	\$ 1,544
Debt securities				
Government obligations	975	20	(5)	990
Other debt securities	641	10	(24)	627
Total debt securities	1,616	30	(29)	1,617
Total available-for-sale securities	\$ 3,267	\$ 180	\$ (286)	\$ 3,161

Unrealized gains and losses are recognized in Accumulated Depreciation, Regulatory Assets and Accumulated Other Comprehensive Income in Generation's Condensed Consolidated Balance Sheet.

For the three months ended March 31, 2002, proceeds from the sale of decommissioning trust investments and gross realized gains and losses on those sales were \$580 million, \$18 million and \$32 million, respectively.

Net realized losses of \$4 million were recognized in Accumulated Depreciation in Generation's Consolidated Balance Sheets at March 31, 2002 and \$10 million of net realized losses were recognized in Other Income and Deductions in Generation's Condensed Consolidated Statements of Income and Comprehensive Income for the three month period ended March 31, 2002. The available-for-sale securities held at March 31, 2002 have an average maturity of eight to ten years. The cost of these securities was determined on the basis of specific identification.

#### 7. COMMITMENTS AND CONTINGENCIES (Exelon, ComEd, PECO and Generation)

For information regarding capital commitments and nuclear decommissioning and spent fuel storage, see the Commitments and Contingencies Note in the Consolidated Financial Statements of Exelon, ComEd and PECO for the year ended December 31, 2001 and Generation's S-4.

#### Environmental Liabilities

Exelon has identified 72 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. As of March 31, 2002, Exelon had accrued \$144 million for environmental investigation and remediation costs that currently can be reasonably estimated, including \$121 million for MGP investigation and remediation. Exelon, ComEd, PECO and Generation cannot predict whether 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.

ComEd had accrued \$99 million (discounted) as of March 31, 2002, for environmental investigation and remediation costs which currently can be reasonably estimated. This reserve included \$94 million for MGP investigation and remediation.

PECO had accrued \$35 million (undiscounted) as of March 31, 2002, for environmental investigation and remediation costs which currently can be reasonably estimated, including \$27 million for MGP investigation and remediation.

Generation had accrued \$10 million (undiscounted) as of March 31, 2002, for environmental investigation and remediation cost, none of which relates to MGP investigation and remediation.

Energy Commitments

As of March 31, 2002, Exelon and Generation had long-term commitments relating to the net purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others, including Midwest Generation, LLC and AmerGen, an unconsolidated affiliate of Generation, as expressed in the following table:

	Capacity Purchases	Power Only Sales	Power Only AmerGen	Purchases from Non-Affiliates	Transmission Rights Purchases
2002	\$ 840	\$ 2,210	\$ 201	\$ 1,330	\$ 91
2003	1,214	1,391	261	506	31
2004	1,222	809	315	144	15
2005	406	231	241	78	15
2006	406	122	241	63	5
Thereafter	3,657	22	2,171	252	--
Total	\$ 7,745	\$ 4,785	\$ 3,430	\$ 2,373	\$ 157

In connection with the 2001 corporate restructuring, ComEd entered into a purchase power agreement (PPA) with Generation. Under the terms of the PPA, Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

In connection with the 2001 corporate restructuring, PECO entered into a PPA with Generation. Under the terms of the PPA, PECO obtains the majority of its electric supply from Generation through 2010. Also, under the restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

Under terms of the 2001 corporate restructuring, ComEd will remit to Generation any amounts collected from customers for decommissioning. Under an agreement effective September 2001, PECO will remit to Generation any amounts collected from customers for decommissioning.

#### Litigation

##### ComEd

Chicago Franchise. In March 1999, ComEd reached a settlement agreement with the City of Chicago (Chicago) to end the arbitration proceeding between ComEd and Chicago regarding the January 1, 1992 franchise agreement. As part of the settlement agreement, ComEd and Chicago agreed to a revised combination of ongoing work under the franchise agreement and new initiatives that will result in defined transmission and distribution expenditures by ComEd to improve electric services in Chicago. The settlement agreement provides that ComEd would be subject to liquidated damages if the projects are not completed by various dates, unless it was prevented from doing so by events beyond its reasonable control. In addition, ComEd and Chicago established an Energy Reliability and Capacity Account, into which ComEd deposited \$25 million during each of the years 1999 through 2001 and has conditionally agreed to deposit \$25 million at the end of 2002, to help ensure an adequate and reliable electric supply for Chicago.

FERC Municipal Request for Refund. Three of ComEd's wholesale municipal customers filed a complaint and request for refund with the Federal Energy Regulatory Commission (FERC) alleging that ComEd failed to properly adjust its rates, as provided for under the terms of the electric service contracts with the municipal customers and to track certain refunds made to ComEd's retail customers in the years 1992 through 1994. In the third quarter of 1998, FERC granted the complaint and directed that refunds be made, with interest. ComEd filed a request for rehearing. On April 30, 2001, FERC issued an order granting rehearing in which it determined that its 1998 order had been erroneous and that no refunds were due from ComEd to the municipal customers. On June 29, 2001, FERC denied the customers' requests for rehearing of the order granting rehearing. In August 2001, each of the three wholesale municipal customers appealed the April 30, 2001 FERC order to the Federal circuit court, which consolidated the appeals for the purposes of briefing and decision. In November 2001, the court suspended briefing pending court-initiated settlement discussions.

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. On August 4, 1999, the Illinois Appellate Court held that the developers' claims against the state were premature, and the Illinois Supreme Court denied leave to appeal that ruling. Developers of both facilities have since filed amended complaints repeating their allegations that ComEd breached the contracts in question and requesting damages for such breach, in the amount of the difference between the state-subsidized rate and the amount ComEd was willing to pay for the electricity. ComEd is contesting this matter.

Service Interruptions. In August 1999, three class action lawsuits were filed against ComEd, and subsequently consolidated, in the Circuit Court of Cook County, Illinois seeking damages for personal injuries, property damage and economic losses related to a series of service interruptions that occurred in the summer of 1999. The combined effect of these interruptions resulted in over 168,000 customers losing service for more than four hours. Conditional class certification was approved by the court for the sole purpose of exploring settlement talks. ComEd filed a motion to dismiss the complaints. On April 24, 2001, the court dismissed four of the five counts of the consolidated complaint without prejudice and the sole remaining count was dismissed in part. On June 1, 2001, the plaintiffs filed a second amended consolidated complaint and ComEd has filed an answer. A portion of any settlement or verdict may be covered by insurance; discussions with the carrier are ongoing. Exelon's management believes adequate reserves have been established in connection with these cases.

Enron. As a result of Enron Corp.'s bankruptcy proceeding, ComEd has potential monetary exposure for its 366 customer accounts that were served by Enron Energy Services (EES) as a billing agent. EES has rejected its contracts with these accounts, with the exception of approximately 100 accounts for which EES retains its billing agency. ComEd is working to ensure that customers know what amounts are owed to ComEd on accounts for which EES has been removed as billing agent, and has obtained updated billing addresses for these accounts. With regard to the accounts for which EES retains its billing agency, ComEd's total amount outstanding is not material. Because that amount is owed to ComEd by individual customers, it is not part of the bankrupt Enron's estate. The ICC has rescinded EES's authority to act as an alternative retail energy supplier in Illinois. However, EES never served as a supplier, as opposed to a billing agent, to any of ComEd's retail accounts.

#### ComEd and Generation

Godley Park District Litigation. On April 18, 2001, the Godley Park District filed suit in Will County Circuit Court against ComEd and Exelon alleging that oil spills at Braidwood Station have contaminated the Park District's water supply. The complaint sought actual damages, punitive damages of \$100 million and statutory penalties. The court dismissed all counts seeking punitive damages and statutory penalties, and the plaintiff has filed an amended complaint before the court. Exelon is contesting the liability and damages sought by the plaintiff.

#### 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. In 1994, a Federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately \$6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was

completed on June 28, 2001. The jury returned a verdict against Cotter and awarded \$16.3 million in various damages. On November 20, 2001, the District Court entered an amended final judgment which included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses which total \$43.3 million. This matter is being appealed by Cotter in the Tenth Circuit Court of Appeals. Cotter will vigorously contest the award.

In November 2000, another trial involving a separate sub-group of 13 plaintiffs, seeking \$19 million in damages plus interest was completed in federal district court in Denver. The jury awarded nominal damages of \$42,500 to 11 of 13 plaintiffs, but awarded no damages for any personal injury or health claims, other than requiring Cotter to perform periodic medical monitoring at minimal cost. The plaintiffs appealed the verdict to the Tenth Circuit Court of Appeals.

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. Exelon's management believes adequate reserves have been established in connection with these proceedings.

The United States 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), is reviewing a draft feasibility study that recommends capping 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 are \$10 to \$15 million. Once a final feasibility study is complete and a remedy selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Exelon cannot predict its share of the costs.

Pennsylvania Real Estate Tax Appeals. Exelon is involved in tax appeals regarding two of its nuclear facilities, Limerick Generating Station (Montgomery County) and Peach Bottom Atomic Power Station (York County), and one of its fossil facilities, Eddystone (Delaware County). Exelon is also involved in the tax appeal for Three Mile Island (Dauphin County) through AmerGen. Exelon does not believe the outcome of these matters will have a material adverse effect on Exelon's results of operations or financial condition.

#### General

Exelon, ComEd, PECO and Generation are involved in various other litigation matters. The ultimate outcome of such matters, as well as the matters discussed above, while uncertain, are not expected to have a material adverse effect on its respective financial condition or results of operations.

8. MERGER-RELATED COSTS (Exelon, ComEd, PECO and Generation)

In association with the October 20, 2000 merger of Unicom Corporation (the former parent company of ComEd) and PECO (Merger), Exelon recorded certain reserves for restructuring costs. The reserves associated with PECO were charged to expense, while the reserves associated with Unicom were recorded as part of the application of purchase accounting and did not affect results of operations.

Merger-related costs charged to expense in 2000 were \$276 million, consisting of \$124 million for PECO employee costs and \$152 million of direct incremental costs. Direct incremental costs represent expenses directly associated with completing the Merger, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance costs and pension and postretirement benefits provided under Exelon's merger separation plans for eligible employees who are expected to be involuntarily terminated before December 2002 due to integration activities of the merged companies.

The purchase price allocation as of December 31, 2000 included a liability of \$307 million for Unicom employee costs and liabilities of approximately \$39 million for estimated costs of exiting various business activities of former Unicom activities that were not compatible with the strategic business direction of Exelon.

During 2001, Exelon finalized its plans for consolidation of functions, including negotiation of an agreement with the union regarding severance benefits to union employees and recorded adjustments to the purchase price allocation as follows:

	Original Estimate	2001 Adjustments	Adjusted Liabilities
Employee severance payments	\$ 128	\$ 33	\$ 161 (a)
Actuarially determined pension and postretirement costs	158	(11)	147 (b)
Relocation and other severance	21	9	30 (a)
<b>Total Unicom - Employee Cost</b>	<b>\$ 307</b>	<b>\$ 31</b>	<b>\$ 338</b>

- (a) The increase is a result of the identification in 2001 of additional positions to be eliminated.
- (b) The reduction results from lower estimated pension and post retirement welfare benefits reflecting revised actuarial estimates.

Additional employee severance costs of \$48 million primarily related to PECO employees were charged to expense in 2001. Exelon anticipates that a total of \$281 million of employee costs will be funded from pension and postretirement benefit plans.



The following table provides a reconciliation of the reserve for employee severance and relocation costs associated with the merger:

Employee severance and relocation reserve as of October 20, 2000	\$ 149
Additional reserve	42
Adjusted employee severance and relocation reserve	191
Payments to employees (October 2000-December 2001)	(77)
Payments to employees (January 2002-March 2002)	(15)
Employee severance and relocation reserve as of March 31, 2002	\$ 99

As part of the January 2001 corporate restructuring, portions of the employee severance and restructuring reserve were transferred from ComEd to Generation, Enterprises and BSC. Approximately \$62 million and \$30 million of the employee severance and relocation reserve as of March 31, 2002 relates to ComEd and Generation, respectively, and is reflected on the Consolidated Balance Sheets of those entities.

Approximately 3,300 Unicom and PECO positions have been identified to be eliminated as a result of the merger. Exelon has terminated 1,745 employees as of March 31, 2002 of which 284 were terminated in the first quarter of 2002. The remaining positions are expected to be eliminated by the end of 2002.

9. LONG-TERM DEBT (Exelon and ComEd)

On March 13, 2002, ComEd issued \$400 million of 6.15% First Mortgage Bonds, due March 15, 2012. On March 21, 2002, ComEd redeemed \$200 million of 8.625% First Mortgage Bonds at the redemption price of 103.84% of the principal amount plus accrued interest. These bonds had a maturity date of February 1, 2022. The \$400 million bond issuance was a replacement of the \$200 million bonds called on March 21, 2002 and the \$196 million 9.875% First Mortgage Bonds which were called in November 2001.

In connection with the issuance of \$400 million of First Mortgage Bonds, ComEd settled forward starting interest rate swaps in the aggregate amount of \$375 million resulting in a \$9 million loss recorded in other comprehensive income, which is being amortized over the expected remaining life of the related debt.

10. SALE OF ACCOUNTS RECEIVABLE (Exelon and PECO)

PECO is party to an agreement, which expires in November 2005, with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to \$225 million of designated accounts receivable. As of March 31, 2002, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$163 million interest in accounts receivable that PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No. 125" and a \$62 million interest in special-agreement accounts receivable which were accounted for as a long-term note payable. PECO retains the servicing responsibility for these receivables.

The agreement requires PECO to maintain the \$225 million interest, which, if not met, requires PECO to deposit cash in order to satisfy such requirements. At March 31, 2002, PECO met this requirement and was not required to make any cash deposits.

11. RELATED-PARTY TRANSACTIONS (Exelon, ComEd, PECO and Generation)  
Exelon and Generation

In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate equal to the 1-month London Interbank Offering Rate plus 2.25%. As of March 31, 2002, \$46 million had been loaned to AmerGen. The loan is due November 30, 2002.

Generation has entered into PPAs dated December 18, 2001 and November 22, 1999 with AmerGen. Under the 2001 PPA, Generation has agreed to purchase from AmerGen all the energy from Unit No. 1 at Three Mile Island Nuclear Station from January 1, 2002 through December 31, 2014. Under the 1999 PPA, Generation has agreed to purchase from AmerGen all of the residual energy from Clinton Nuclear Power Station (Clinton), through December 31, 2002. Currently, the residual output approximates 25% of the total output of Clinton. For the three months ended March 31, 2002 and 2001, the amount of purchased power recorded in Fuel and Purchased Power in the Condensed Consolidated Statements of Income and Comprehensive Income is \$56 million and \$10 million, respectively. As of March 31, 2002 and December 31, 2001, Generation had a payable of \$19 million and \$3 million, respectively, resulting from these PPAs.

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 on 90 days notice. Generation is compensated for these services in an amount agreed to in the work order, but not less than the higher of fully allocated costs for performing the services or the market price. For the three months ended March 31, 2002 and 2001, the amount charged to AmerGen for these services was \$14 million and \$16 million, respectively. As of March 31, 2002 and December 31, 2001, Generation had a receivable of \$46 million and \$47 million, respectively, resulting from these services.

ComEd

ComEd had a note receivable from Unicom Investments Inc. of \$1.3 billion at March 31, 2002 and December 31, 2001, relating to the December 1999 fossil plant sale, which is included in deferred debits and other assets in ComEd's Condensed Consolidated Balance Sheets. Interest income earned on this note receivable was \$8 million and \$23 million, respectively, for the three months ended March 31, 2002 and 2001. Interest receivable due on this note was \$8 million and \$24 million at March 31, 2002 and December 31, 2001, respectively, and is included in Current Assets on ComEd's Condensed Consolidated Balance Sheets.

Interest income earned on the \$352 million outstanding receivable from PECO as of March 31, 2001 was \$5 million for the three months ended March 31, 2001. This receivable was repaid in the second quarter of 2001.

At March 31, 2002 and December 31, 2001, ComEd had a \$906 million and \$937 million non-interest bearing receivable, respectively, from Exelon relating to the 2001 Corporate restructuring. This receivable is reflected as a reduction of Shareholders' Equity in ComEd's Condensed Consolidated Balance Sheets and is expected to be settled over the years 2002 through 2008.

ComEd had a short-term payable of \$59 million at March 31, 2002 and December 31, 2001, and a long-term payable of \$275 million and \$291 million at March 31, 2002 and December 31, 2001, respectively, to Generation primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation. These liabilities to Generation were included in Current Liabilities and Deferred Credits and Other Liabilities, respectively, on ComEd's Condensed Consolidated Balance Sheets.

ComEd paid common stock dividends to Exelon of \$118 million and \$63 million for the three months ended March 31, 2002 and March 31, 2001, respectively.

Effective January 1, 2001, ComEd entered into a PPA with Generation. Intercompany power purchases pursuant to the PPA for the three months ended March 31, 2002 and March 31, 2001 were \$532 million and \$608 million, respectively. At March 31, 2002 and December 31, 2001, there was a \$166 million and \$183 million payable, respectively, to Generation for the PPA as well as other services provided which is included in Current Liabilities on ComEd's Condensed Consolidated Balance Sheets.

ComEd provided electric, transmission, and other ancillary services to Generation and Enterprises. These services were recorded in revenues were \$11 million and \$42 million for the three months ended March 31, 2002 and March 31, 2001, respectively. At March 31, 2002 and December 31, 2001, there was a \$4 million and \$26 million receivable, respectively, for services provided, which is included in Current Assets on ComEd's Condensed Consolidated Balance Sheets.

ComEd receives a variety of corporate support services from Exelon Business Services Company (BSC), including legal, human resources, financial and information technology services. Such services, provided at cost including applicable overhead, were \$40 million and \$30 million for the three months ended March 31, 2002 and March 31, 2001, respectively, of which \$39 million and \$28 million, respectively, was included in Operating and Maintenance (O&M) expense on ComEd's Condensed Consolidated Statements of Income and Comprehensive Income and \$1 million and \$2 million, respectively, was capitalized. At March 31, 2002 and December 31, 2001, there was a \$21 million and \$14 million payable, respectively, to BSC for services provided which is included in Current Liabilities on ComEd's Condensed Consolidated Balance Sheets.

ComEd receives transmission related services under contracts with InfraSource, Inc., formerly Exelon Infrastructure Services, Inc. Such services totaling \$7 million and \$9 million for the three months ended March 31, 2002 and March 31, 2001, respectively, were capitalized.

In 2001, ComEd contracted with Exelon Services to provide energy conservation services to ComEd customers. The costs were \$3 million and \$4 million for the three months ended March 31, 2002 and March 31, 2001, respectively, and were included in O&M expense on ComEd's Condensed Consolidated Statements of Income and Comprehensive Income.

In order to facilitate payment processing, ComEd processes certain invoice payments on behalf of Generation and BSC. Receivables at March 31, 2002 and December 31, 2001 from Generation for such service totaled \$119 million and \$21 million, respectively, and from BSC totaled \$24 million and \$19 million, respectively, and were included in Current Assets on ComEd's Condensed Consolidated Balance Sheets.

#### PECO

Effective January 1, 2001, Exelon contributed to PECO a \$2.0 billion non-interest bearing receivable from Exelon's related to the 2001 corporate restructuring. This receivable is reflected as a reduction of Shareholders' Equity in PECO's Condensed Consolidated Balance Sheets and is expected to be settled over the years 2002 through 2010. As of March 31, 2002 and December 31, 2001, the balance of this receivable from Exelon was \$1.8 billion and \$1.9 billion, respectively.

PECO paid common stock dividends of \$85 million and \$45 million to Exelon for the three months ended March 31, 2002 and 2001, respectively.

Effective January 1, 2001, PECO entered into a PPA with Generation. Intercompany power purchases pursuant to the PPA for the three months ended March 31, 2002 and 2001 were \$303 million and \$244 million, respectively. As of March 31, 2002 and December 31, 2001, PECO's payable related to the PPA was \$105 million and \$90 million, respectively.

PECO receives a variety of corporate support services from BSC, including legal, human resources, financial and information technology services. Such services, provided at cost including applicable overhead, were \$7 million and \$2 million for the three months ended March 31, 2002 and 2001, respectively. At March 31, 2002 and December 31, 2001, PECO had a \$31 million and \$41 million payable, respectively, to BSC.

PECO received services from Enterprises during the three months ended March 31, 2002 and 2001 for deployment of automated meters and meter reading services for \$9 million and \$5 million, respectively. At March 31, 2002 and December 31, 2001, PECO had a \$6 million and \$8 million payable, respectively, to Enterprises.

Interest expense related to the outstanding payable to ComEd of \$352 million as of March 31, 2001 was \$5 million for the three months ended March 31, 2001. This payable was repaid in the second quarter of 2001.

PECO provides energy to Generation for Generation's own use. Intercompany sales for the three months ended March 31, 2002 and 2001 were \$2 million in each period.

## Generation

Generation had a short-term receivable of \$59 million at March 31, 2002 and December 31, 2001, and a long-term receivable of \$275 million and \$291 million at March 31, 2002 and December 31, 2001, respectively, from ComEd primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation resulting from the restructuring. These receivables from ComEd were included in Current Assets and Deferred Debits and Other Liabilities, respectively, on Generation's Condensed Consolidated Balance Sheets.

Effective January 1, 2001, Generation entered into PPAs with ComEd and PECO. Intercompany power sales pursuant to the PPAs for the three months ended March 31, 2002 and March 31, 2001 were \$835 million, including decommissioning revenue of \$3 million, and \$852 million, including decommissioning revenue of \$3 million, respectively. At March 31, 2002 and December 31, 2001, there was a \$271 million and \$273 million receivable, respectively, for the PPAs as well as other services provided which is included in Current Assets on Generation's Condensed Consolidated Balance Sheets.

Generation sells power to Exelon Energy. Power sales for the three months ended March 31, 2002 and 2001 were \$57 million and \$61 million, respectively. At March 31, 2002 and December 31, 2001, there was a \$19 million and \$15 million receivable, respectively.

Generation purchases power from AmerGen under PPAs as discussed in the Exelon and Generation section of this note. Additionally, Generation purchases power from PECO for Generation's own use, buys back excess power from Exelon Energy and purchases transmission and ancillary services from ComEd. These purchases, including AmerGen, for the three months ended March 31, 2002 and 2001 were \$72 million and \$18 million, respectively. At March 31, 2002 and December 31, 2001, Generation had payables for such services of \$4 million and \$26 million, respectively.

Generation receives a variety of corporate support services from BSC, including legal, human resources, financial and information technology services. Such services, provided at cost including applicable overhead, were \$14 million and \$13 million for the three months ended March 31, 2002 and March 31, 2001, respectively, and were included in Operating and Maintenance (O&M) expense on Generation's Condensed Consolidated Statements of Income and Comprehensive Income. At March 31, 2002 and December 31, 2001, there was an \$8 million and an \$18 million payable, respectively, to BSC for services provided which is included in Current Liabilities on Generation's Condensed Consolidated Balance Sheets.

In order to facilitate payment processing, ComEd processes certain invoice payments on behalf of Generation. Payables at March 31, 2002 and December 31, 2001 to ComEd for such services totaled \$119 million and \$21 million, respectively, and were included in Current Liabilities on Generation's Condensed Consolidated Balance Sheets.

In relation to the December 18, 2001 acquisition of 49.9% of Sithe Energies, Inc. (Sithe) common stock, Generation had a \$700 million payable to Exelon, which was repaid in the second quarter of 2001. Interest expense related to this payable for the three months ended March 31, 2001 was \$15 million.

12. NEW ACCOUNTING PRONOUNCEMENTS (Exelon, ComEd, PECO and Generation)

In June 2001, the FASB issued SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143). In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145).

SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. Exelon expects to adopt SFAS No. 143 on January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. Adoption of SFAS No. 143 will change the accounting for the decommissioning of Exelon's nuclear generating plants. Currently, Generation records the obligation for decommissioning ratably over the lives of the plants. The January 1, 2003 adoption of SFAS No. 143 will require a cumulative effect adjustment effective the date of adoption to adjust plant assets and decommissioning liabilities to the values they would have had this standard been employed from the in-service dates of the plants.

The effect of this cumulative adjustment will be to increase the decommissioning liability to reflect a full decommissioning obligation in current year dollars. Additionally, the standard will require the accrual of an asset related to the full amount of the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference between the asset recognized and the liability recorded upon adoption of SFAS No. 143 will be charged to earnings and recognized as a cumulative effect, net of expected regulatory recovery. The decommissioning liability to be recorded represents an obligation for the future decommissioning of the plants, and as a result interest expense will be accrued on this liability until such time as the obligation is satisfied.

Exelon is in the process of evaluating the impact of SFAS No. 143 on its financial statements, and cannot determine the ultimate impact of adoption at this time, however the cumulative effect could be material to Exelon's earnings. Additionally, although over the life of the plant the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts currently recognized as decommissioning expense, the timing of those charges will change and in the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability could result in an increase in expense.

Exelon, ComEd, PECO and Generation adopted SFAS No. 144 on January 1, 2002. SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and its provisions are generally applied prospectively. The adoption of this statement had no effect on Exelon's reported financial positions, results of operations or cash flows.

SFAS No. 145 eliminates SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt" (SFAS No. 4) and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also amends Statement of Financial Accounting Standards No. 13, "Accounting for Leases", (SFAS No. 13) to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This provisions of this statement relating to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002, the provisions of this statement relating to the amendment of SFAS No. 13 are effective for transactions occurring after May 15, 2002, and all other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. Exelon is in the process of evaluating the impact of SFAS No. 145 on its financial statements, and does not expect the impact to be material.

13. CHANGE IN ACCOUNTING ESTIMATE (Exelon and Generation)

Effective April 1, 2001, Generation changed its accounting estimates related to the depreciation and decommissioning of certain generating stations. The estimated service lives were extended by 20 years for three nuclear stations, by periods of up to 20 years for certain fossil stations and by 50 years for a pumped storage station. Effective July 1, 2001, the estimated service lives were extended by 20 years for the remainder of Exelon's operating nuclear stations. These changes were based on engineering and economic feasibility studies performed by Generation considering, among other things, future capital and maintenance expenditures at these plants. As a result of the change, net income for the three months ended March 31, 2002 increased \$35 million (\$20 million, net of income taxes).

14. SUBSEQUENT EVENTS (Exelon and Generation)

On April 25, 2002, Generation completed the purchase of two TXU Energy power plants located in the Dallas and Fort Worth areas for \$443 million. The agreement was first announced in December 2001. The purchase includes the 893 MW Mountain Creek Steam Electric Station in Dallas and the 1,441 MW Handley Steam Electric Station in Fort Worth. The purchase was funded with available cash and Exelon commercial paper.

On April 1, 2002, Exelon Enterprises completed the sale of its 49% interest in AT&T Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for \$285 million in cash. The after-tax gain is estimated at approximately \$120 million with a resulting \$0.37 earnings per share (diluted) gain, which will be reported as part of second quarter earnings. Proceeds from the transaction will be used for Exelon's general corporate purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

EXELON CORPORATION

GENERAL

Exelon Corporation (Exelon), through its subsidiaries, operates in three business segments:

- o Energy Delivery, consisting of the retail electricity distribution and transmission businesses of Commonwealth Edison Company (ComEd) in northern Illinois and PECO Energy Company (PECO) in southeastern Pennsylvania and the natural gas distribution business of PECO in the Pennsylvania counties surrounding the City of Philadelphia.
- o Generation, consisting of Exelon Generation Company, LLC's (Generation) electric generating facilities, energy marketing operations and equity interests in Sithe Energies, Inc. (Sithe) and AmerGen Energy Company, LLC (AmerGen).
- o Enterprises, consisting of Exelon Enterprises Company, LLC's (Enterprises) competitive retail energy sales, energy and infrastructure services, communications and other investments weighted towards the communications, energy services and retail services industries.

See Note 5 of the Combined Notes to Condensed Consolidated Financial Statements for further segment information.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared To Three Months Ended March 31, 2001

Net Income and Earnings Per Share

Exelon's income before the cumulative effect of changes in accounting principles decreased \$149 million, or 39%, for the three months ended March 31, 2002. Diluted earnings per common share on the same basis decreased \$0.46 per share, or 39%. The decrease in income before the cumulative effect of changes in accounting principles reflects lower earnings in Energy Delivery and Generation, primarily related to a decrease in retail sales due to mild winter weather, lower wholesale energy prices, increased nuclear refueling outage costs and employee severance costs, partially offset by the discontinuation of goodwill amortization required by the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142).

Net income decreased \$391 million, or 98%, for the three months ended March 31, 2002. Diluted earnings per common share on the same basis decreased \$1.21 per share, or 98%. Net income for the three months ended March 31, 2002 includes a \$230 million charge for the cumulative effect of changes in accounting principles, reflecting goodwill impairment upon the adoption of SFAS No. 142. Net income for the three months ended March 31, 2001 includes \$12 million of income for the cumulative effect of adopting SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133).



See ITEM 1. Financial Statements - Note 2 - Cumulative Effect of Changes in Accounting Principles.

Exelon evaluates its performance on a business segments basis. The analysis below presents the operating results for each of its business segments for the three months ended March 31, 2002 compared to the three months ended March 31, 2001.

Corporate provides its business segments a variety of support services including legal, human resources, financial and information technology services. These costs are allocated to the business segments. Additionally, Corporate costs reflect costs for strategic long-term planning, lobbying, and interest costs and income from various investment and financing activities.

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

	Three Months Ended March 31,			
	2002	2001	Variance	% Change
Energy Delivery	215	266	(51)	(19.2%)
Generation	66	158	(92)	(58.2%)
Enterprises	(28)	(25)	(3)	12.0%
Corporate	(15)	(12)	(3)	25.0%
Total	238	387	(149)	(38.5%)

Results of Operations - Energy Delivery Business Segment

	Three Months Ended March 31,			
	2002	2001	Variance	% Change
OPERATING REVENUES	\$ 2,335	\$2,497	\$ (162)	(6.5%)
OPERATING EXPENSES				
Fuel and Purchased Power	1,024	1,097	(73)	(6.7%)
Operating and Maintenance	373	350	23	6.6%
Depreciation and Amortization	247	268	(21)	(7.8%)
Taxes Other Than Income	132	115	17	14.8%
Total Operating Expense	1,776	1,830	(54)	(3.0%)
OPERATING INCOME	559	667	(108)	(16.2%)
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(221)	(246)	25	(10.2%)
Distributions on Preferred Securities of Subsidiaries	(11)	(11)	--	0.0%
Other, net	14	47	(33)	(70.2%)
Total Other Income and Deductions	(218)	(210)	(8)	3.8%
INCOME BEFORE INCOME TAXES	341	457	(116)	(25.4%)
INCOME TAXES	126	191	(65)	(34.0%)
NET INCOME	\$ 215	\$ 266	\$ (51)	(19.2%)

Energy Delivery's gross margin (revenue net of fuel and purchased power) declined \$89 million, \$51 million of which was attributable to milder winter weather which reduced retail electric and gas volumes, and a reduction in wholesale sales volumes.

Higher operating and maintenance expense reflects an increase in uncollectible accounts and claims expenses, costs associated with the deployment of automatic meter reading technology, increased pension and postretirement benefit costs and increased corporate allocations, including a portion of executive severance charges.

Energy Delivery's \$21 million decrease in depreciation and amortization expense reflects \$32 million for the discontinuation of goodwill amortization due to the adoption of SFAS No. 142 as of January 1, 2002, partially offset by \$9 million of higher competitive transition charge (CTC) amortization.

Lower interest expense reflects reductions in debt outstanding and lower interest rates due to debt refinancing. The reduction in Other - net, primarily reflects lower intercompany interest income reflecting lower interest rates.

Energy Delivery's effective income tax rate was 37.0% for the three months ended March 31, 2002, compared to 41.8% for the three months ended March 31, 2001. The decrease in the effective tax rate was primarily attributable to the discontinuation of goodwill amortization as of January 1, 2002, which was not deductible for income tax purposes and tax benefits associated with the implementation of state tax planning strategies and the reduced impact of investment tax credit amortization.

Energy Delivery Operating Statistics and Revenue Detail

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

Retail Deliveries - (in gigawatthours (GWh))	For the three months ended March 31,		% Change
	2002	2001	
-----			
Bundled Deliveries (1)			
Residential	8,465	8,766	(3.4%)
Small Commercial & Industrial	7,207	6,876	4.8%
Large Commercial & Industrial	5,307	5,421	(2.1%)
Public Authorities & Electric Railroads	1,994	2,203	(9.5%)
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	22,973	23,266	(1.3%)
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Unbundled Deliveries (2)			
Alternative Energy Suppliers			
Residential	792	527	50.3%
Small Commercial & Industrial -	1,100	1,354	(18.8%)
Large Commercial & Industrial -	1,489	2,352	(36.7%)
Public Authorities & Electric Railroads -	138	48	187.5%
-----			
	3,519	4,281	(17.8%)
-----			
PPO (ComEd Only)			
Small Commercial & Industrial	763	823	(7.3%)
Large Commercial & Industrial	1,311	1,359	(3.5%)
Public Authorities & Electric Railroads	242	258	(6.2%)
-----			
	2,316	2,440	(5.1%)
-----			
Total Unbundled Deliveries	5,835	6,721	(13.2%)
-----			
Total Retail Deliveries	28,808	29,987	(3.9%)
-----			

- (1) Bundled service 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.
- (2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier or ComEd's Power Purchase Option (PPO).

Electric Revenue (in millions)	For the three months ended March 31,		Variance	% Change
	2002	2001		
<b>Bundled Revenues (1)</b>				
Residential	\$ 761	\$ 815	\$ (54)	(6.6%)
Small Commercial & Industrial	580	520	60	11.5%
Large Commercial & Industrial	346	319	27	8.5%
Public Authorities & Electric Railroads	110	124	(14)	(11.3%)
	1,797	1,778	19	10.7%
<b>Unbundled Revenues (2)</b>				
Alternative Energy Suppliers				
Residential	54	36	18	50.0%
Small Commercial & Industrial	17	54	(37)	(68.5%)
Large Commercial & Industrial	13	62	(49)	(79.0%)
Public Authorities & Electric Railroads	2	1	1	100.0%
	86	153	(67)	(43.8%)
<b>PPO (ComEd Only)</b>				
Small Commercial & Industrial	43	37	6	16.2%
Large Commercial & Industrial	64	61	3	4.9%
Public Authorities & Electric Railroads	13	12	1	8.3%
	120	110	10	9.1%
<b>Total Unbundled Revenues</b>	<b>206</b>	<b>263</b>	<b>(57)</b>	<b>(21.7%)</b>
<b>Total Electric Retail Revenues</b>	<b>2,003</b>	<b>2,041</b>	<b>(38)</b>	<b>(1.9%)</b>
<b>Wholesale and Miscellaneous Revenue (3)</b>	<b>123</b>	<b>162</b>	<b>(39)</b>	<b>(2.4%)</b>
<b>Total Electric Revenue</b>	<b>\$ 2,126</b>	<b>\$ 2,203</b>	<b>\$ (77)</b>	<b>(3.5%)</b>

- (1) Bundled service 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.
- (2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier or ComEd's Power Purchase Option (PPO). Revenue from customers choosing an alternative energy supplier includes a distribution charge and a CTC. Revenues from customers choosing ComEd's PPO includes an energy charge at market rates, transmission, and distribution charges and a CTC. Transmission charges received from alternative energy suppliers are included in wholesale and miscellaneous revenue.
- (3) Wholesale and miscellaneous revenues include sales to alternative energy suppliers, transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the three months ended March 31, 2002, as compared to the same period in 2001 are attributable to the following:

(in millions)	Variance
Rate Changes	\$ (1)
Customer Choice	41
Weather	(72)
Other Effects	(6)
<b>Electric Retail Revenue</b>	<b>\$ (38)</b>

- o Rate Changes. The decrease in revenues attributable to rate changes reflects the 5% ComEd residential rate reduction, effective October 1, 2001, required by the Illinois restructuring legislation and a \$60 million PECO rate reduction effective January 1, 2001 offset by an increase in PECO's gross receipts tax rate of \$13 million and the expiration of a 6%

reduction in PECO's rates during the first quarter of 2001. The change in the gross receipts tax rate does not affect income.

- o Customer Choice. ComEd non-residential customers and all PECO customers have the choice to purchase energy from other suppliers. This choice generally does not impact kWh deliveries, but affects revenue collected from customers related to energy supplied by Energy Delivery. The favorable customer choice effect is attributable to increased revenues of \$80 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier, partially offset by a decrease in revenues of \$39 million from customers in Illinois electing to purchase energy from an Alternative Retail Electric Supplier (ARES) or the PFO, under which customers can purchase power from ComEd at a market-based rate. Exelon continues to collect delivery charges from these customers.
- o Weather. The demand for electricity and gas services is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months is referred to as "favorable weather conditions", because these weather conditions result in increased sales of electricity and gas. Conversely, mild weather reduces demand. The weather impact was unfavorable compared to the prior year as a result of warmer winter weather in ComEd's and PECO's service territories.
- o Other Effects. Other items decreasing revenues were primarily related to an \$11 million settlement of CTCs by a large PECO customer in 2001 partially offset by a net \$8 million favorable volume variance other than weather, due to the impact of a strong housing construction market in Chicago, partially offset by the impact of a slower economy on large commercial and industrial customers.

The reduction in Wholesale and Miscellaneous revenues in for the three months ended March 31, 2002, as compared to 2001, reflects \$28 million lower off-system sales due to the expiration of wholesale contracts that were offered by ComEd from June 2000 to May 2001 to support the open access program in Illinois.

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

	2002	2001	Variance
Deliveries in million cubic feet (mmcf)	31,357	34,230	(2,873)
Revenue (in millions)	\$209	\$295	\$(86)

The changes in gas revenue for the quarter ended March 31, 2002, as compared to the same 2001 period, are as follows:

(in millions)	Variance
Rate Changes	\$ (35)
Weather	(30)
Volume	(21)
Gas Revenue	\$ (86)

- o Rate Changes. The unfavorable variance in rates is attributable to an adjustment of the purchased gas cost recovery by the PUC effective in December 2001. The average rate per million cubic feet for all customers for the quarter ended March 31, 2002 was 23% lower than the same 2001 period. PECO's gas rates are subject to periodic adjustments by the PUC designed to recover or refund the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.
- o Weather. The unfavorable weather impact is attributable to warmer temperatures during the quarter ended March 31, 2002 as compared to the same 2001 period. Heating degree-days decreased 17% in the quarter ended March 31, 2002 compared to the same 2001 period.
- o Volume. Exclusive of weather impacts, lower delivery volume affected revenue by \$21 million in the quarter ended March 31, 2002 compared to the same 2001 period. Total deliveries to retail customers decreased 8% in the quarter ended March 31, 2002 compared to the same 2001 period, primarily as a result of slower economic conditions in 2002 offset by increased customer growth.

Results of Operations - Generation Business Segment

	Three Months Ended March 31,			
	2002	2001	Variance	% Change
OPERATING REVENUES	\$ 1,975	\$1,628	\$ 347	21.3%
OPERATING EXPENSES				
Fuel and Purchased Power	1,342	818	524	64.1%
Operating and Maintenance	432	404	28	6.9%
Depreciation and Amortization	63	92	(29)	(31.5%)
Taxes Other Than Income	49	46	3	6.5%
Total Operating Expense	1,886	1,360	526	38.7%
OPERATING INCOME	89	268	(179)	(66.8%)
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(17)	(33)	16	(48.5%)
Equity in Earnings (Losses) of Unconsolidated Affiliates, net	23	26	(3)	(11.5%)
Other, net	16	4	12	300.0%
Total Other Income and Deductions	22	(3)	25	(833.3%)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	111	265	(154)	(58.1%)
INCOME TAXES	45	107	(62)	(57.9%)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	66	158	(92)	(58.2%)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	13	12	1	8.3%
NET INCOME	\$ 79	\$ 170	(91)	(53.5%)

Generation's operating results reflect lower margins (revenues less fuel and purchased power) on wholesale energy sales due to lower market prices for energy, a lower supply of low cost nuclear generation and a reduction in volumes sold to affiliates. Revenues for the first quarter of 2002 include \$515

million related to the trading activities, which were initiated in April 2001. Lower volumes sold to retail affiliates attributable to mild winter weather reduced Generation's gross margins by \$7 million, the effect of which was partially offset by an increase in lower price wholesale sales. Additionally, four additional nuclear generating station refueling outages reduced the amount of low cost nuclear generation available for sale. Fuel and purchased power expense includes \$514 million related to the trading portfolio. Operating and maintenance expense increased due to the additional refueling outages, partially offset by employee reductions and other non-outage operating cost reductions. The decline in depreciation expense reflects extension of the estimated service lives of generating stations commencing in the second quarter of 2001. Operating results for the three months ended March 31, 2002 include non-cash mark-to-market gains on derivative contracts of \$3 million. SFAS No. 141, "Business Combinations" (SFAS No. 141) requires that unamortized negative goodwill related to pre-July 1, 2001 purchases be recognized as a change in accounting principle concurrent with the adoption of SFAS No. 142. At December 31, 2001, AmerGen, an equity-method investee of Generation, had \$43 million of negative goodwill, net of accumulated amortization, recorded on its balance sheet. Upon AmerGen's adoption of SFAS No. 141 in January 2002, Generation recognized its proportionate share of income of \$22 million (\$13 million, net of income taxes) as a cumulative effect of a change in accounting principle. Exelon adopted SFAS No. 133 on January 1, 2001, which resulted in after-tax income of \$12 million that is reflected as a cumulative effect of a change in accounting principle. See ITEM 1. Financial Statements - Note 2 - Cumulative Effect of Changes in Accounting Principles.

Generation Operating Statistics:

For the three months ended March 31, 2002 and 2001, Generation's sales and the supply of these sales were as follows:

	Three Months Ended March 31,	
	2002	2001
Energy Delivery	27,750	29,204
Exelon Energy	1,250	1,591
Market Sales	19,324	17,459
Trading Portfolio	14,239	--
Total	62,563	48,254

(in GWhs)	Three Months Ended March 31,	
	2002	2001
Nuclear Units	28,752	31,206
Purchases - non-trading portfolio	18,093	15,561
Purchases - trading portfolio	14,239	--
Fossil and Hydro Units	1,479	1,487
Total	62,563	48,254

Generation's average margin data for the three months ended March 31, 2002 and 2001 were as follows:

(\$/MWh)	Three Months Ended March 31,	
	2002	2001
Average Realized Revenue		
Energy Delivery	\$ 29.98	\$ 29.11
Exelon Energy	45.60	38.34
Market Sales	28.15	39.69
Trading Portfolio	36.17	n.a.
Total Sales - including the trading portfolio	31.14	n.a.
Total Sales - excluding the trading portfolio	29.63	33.24
Average Supply Cost - including the trading portfolio	\$ 21.15	n.a.
Average Supply Cost - excluding the trading portfolio	16.74	16.74
Average Margin - including the trading portfolio	\$ 9.99	n.a.
Average Margin - excluding the trading portfolio	12.89	16.50

n.a. - not applicable as trading activities were initiated in April 2001.

Generation's nuclear fleet, including AmerGen, performed at a capacity factor of 90.3% for the three months ended March 31, 2002 compared to 98.8% the same period in 2001. Generation's nuclear units' production costs for the three months ended March 31, 2002 were \$14.26 per MWh compared to \$11.68 per MWh for the same period in 2001. The lower capacity factor and increased unit production costs reflect the increased number of planned refueling outages in the three months ended March 31, 2002 as compared to the same period in 2001.



## Results of Operations - Enterprises Business Segment

	Three Months Ended March 31,			
	2002	2001	Variance	% Change
OPERATING REVENUES	\$ 490	\$ 667	\$ (177)	(26.5%)
OPERATING EXPENSES				
Fuel and Purchased Power	204	361	(157)	(43.5%)
Operating and Maintenance	301	323	(22)	(6.8%)
Depreciation and Amortization	17	15	2	13.3%
Taxes Other Than Income	2	4	(2)	(50.0%)
Total Operating Expense	524	703	(179)	(25.5%)
OPERATING INCOME	(34)	(36)	2	(5.6%)
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(5)	(13)	8	(61.5%)
Equity in Earnings (Losses) of Unconsolidated Affiliates, net	(7)	(8)	1	(12.5%)
Other, net	(1)	17	(18)	(105.9%)
Total Other Income and Deductions	(13)	(4)	(9)	225.0%
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(47)	(40)	(7)	17.5%
INCOME TAXES	(19)	(15)	(4)	26.7%
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(28)	(25)	(3)	12.0%
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(243)	--	(243)	n.m.
NET INCOME	\$ (271)	\$ (25)	\$ (246)	984.0%

n.m. - not meaningful

Enterprises' net loss increased \$3 million for the three months ended March 31, 2002 compared to the same period in 2001, excluding the cumulative effect of a change in accounting principle. The net loss increased \$246 million after reflecting the cumulative effect of a change in accounting principle resulting from the adoption of SFAS No. 142, which no longer allows amortization of goodwill but requires testing goodwill for impairment on an annual basis. The impairment booked during the first quarter, as a result of transitional impairment testing, was \$243 million net of income taxes and minority interest.

Operating revenues decreased \$177 million for the three months ended March 31, 2002, compared to the same period in 2001. The decrease in operating revenues is attributable to lower gas sales of \$108 million primarily resulting from lower gas prices, reduced retail energy sales of \$48 million from Exelon Energy, Inc. (Exelon Energy) exiting the PJM interconnection, LLC (PJM) market, lower revenues of \$35 million from InfraSource, Inc. (InfraSource) from the continued decline in the telecommunications industry and reduced construction services in that industry and reduced construction project revenues of \$ 29 million at Exelon Services, Inc. (Exelon Services). These decreases were partially offset by increases in revenue of \$26 million from operations in the

electric segment of InfraSource from continued strong performance of the Independent Power Producer market and higher electric sales of \$14 million resulting from higher electric prices in Illinois for Exelon Energy.

Enterprises' operating and other expenses decreased \$188 million for the three months ended March 31, 2002 compared to the same period in 2001. The decrease is primarily attributable to lower gas costs of \$110 million primarily resulting from lower gas prices, lower power and operating expenses of \$65 million resulting from reduced operations of retail energy sales from Exelon Energy exiting the PJM market, and reduced costs relating to construction projects at Exelon Services of \$18 million and a \$10 million gain in 2001 on the distribution of a communications company investment. These decreases were partially offset by higher electric purchased power costs in Illinois of \$15 million.

The effective income tax rate was 40.4% for the three months ended March 31, 2002, compared to 37.5% for the three months ended March 31, 2001. The decrease in the effective tax rate was primarily attributable to the discontinuation of goodwill amortization as of January 1, 2002, that was not deductible for income tax purposes.

#### Corporate Costs

Corporate costs for the three months ended March 31, 2002 increased over the same period in 2001 primarily due to \$20 million of executive severance costs, which were allocated to Exelon's business segments.

#### LIQUIDITY AND CAPITAL RESOURCES

Exelon'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. Exelon's access to external financing at reasonable terms is dependent on the credit ratings of Exelon and its subsidiaries and the general business condition of Exelon and the utility industry. Exelon's businesses are capital intensive. Capital resources are used primarily to fund Exelon's capital requirements, including construction, investments in new and existing ventures, repayments of maturing debt and preferred securities of subsidiaries and payment of common stock dividends. Any potential future acquisitions could require external financing, including the issuance by Exelon of common stock.

#### Cash Flows from Operating Activities

Cash flows provided by operations for the three months ended March 31, 2002 were \$833 million compared to \$797 million in the three months ended March 31, 2001. Approximately 40% of 2002 cash flows provided by operations were provided by Energy Delivery and 60% was provided by Generation in the first quarter of 2002. Enterprises' cash flows from operations were immaterial to Exelon for the three months ended March 31, 2002. Energy Delivery's cash flow from operating activities primarily results from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices and are weighted towards the third quarter. Energy Delivery's future cash flows will depend upon the ability to achieve cost savings in operations, and the impact of the economy, weather and customer choice on its revenues. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Energy

Delivery and Enterprises. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs. Although the amounts may vary from period to period as a result of the uncertainties inherent in business, Exelon expects that Energy Delivery and Generation will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2002 were \$637 million, compared to \$517 million for the three months ended March 31, 2001. The increase is primarily attributable to increased capital expenditures. Capital expenditures by business segment for the three months ended March 31, 2002 and 2001 are as follows:

(in millions)	Three Months Ended March 31,	
	2002	2001
Energy Delivery	\$ 244	\$ 291
Generation	288	118
Enterprises	17	31
Corporate and Other	11	7
<b>Total Capital Expenditures</b>	<b>\$ 560</b>	<b>\$ 447</b>

Energy Delivery's capital expenditures for 2002 reflect the continuation of efforts to further improve the reliability of its distribution system in the Chicago region. Exelon anticipates that Energy Delivery will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon.

Generation's capital expenditures for 2002 are for additions to and upgrades of existing facilities (including nuclear refueling outages), nuclear fuel and increases in capacity at existing plants. Capital expenditures are projected to increase in 2002 as compared to 2001 due to higher nuclear fuel expenditures, growth and an increase in the number of planned refueling outages, during which significant maintenance work is performed. Eleven nuclear refueling outages, including AmerGen, are planned for 2002, compared to six during 2001. Exelon has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2002. In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate of one-month LIBOR plus 2.25%. As of March 31, 2002, AmerGen had borrowed \$46 million under this agreement. The loan is due November 1, 2002. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, Generation borrowings or capital contributions from Exelon. Generation closed the purchase of two natural-gas and oil-fired plants from TXU Corp. (TXU) on April 25, 2002. The \$443 million purchase was funded with available cash and Exelon commercial paper. Exelon expects to redeem the commercial paper utilizing Generation's internal cash flows.

Enterprises' capital expenditures for 2002 are primarily for additions to or upgrades of existing facilities. All of Enterprises' investments are expected to be funded by capital contributions or borrowings from Exelon. On April 1, 2002, Exelon Enterprises closed on the sale of its 49% interest in AT&T

Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for \$285 million in cash. Proceeds from the transaction will be used for Exelon's general corporate purposes.

#### Cash Flows from Financing Activities

Cash flows provided by financing activities were \$15 million in the first quarter 2002, primarily attributable to debt service and payments of dividends on common stock. Debt financing activities during the three months ended March 31, 2002 were as follows:

- o ComEd issued \$400 million in First Mortgage Bonds, retired \$89 million of transitional trust notes and called \$200 million in First Mortgage Bonds with available cash and
- o PECO borrowed an additional \$58 million of commercial paper and made principal payments of \$160 million on long-term debt with available cash.

#### Credit Issues

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by Exelon, ComEd and PECO. Exelon, along with ComEd, PECO and Generation, entered into a \$1.5 billion unsecured revolving credit facility with a group of banks. This credit facility is used principally to support the commercial paper program of Exelon, ComEd and PECO.

At March 31, 2002, Exelon's capital structure consisted of 61% of long-term debt, 35% common stock, 2% notes payable and 3% preferred securities of subsidiaries. Total debt included \$6.6 billion of securitization debt constituting obligations of certain consolidated special purpose entities, representing 28% of capitalization.

At March 31, 2002, Exelon had outstanding \$438 million of notes payable consisting principally of commercial paper. For the three months ended March 31, 2002, the average interest rate on notes payable was approximately 2.08%. Certain of the credit agreements to which Exelon, ComEd, PECO and Generation are a party require each of them to maintain a debt to total capitalization ratio of 65% or less (excluding securitization debt and for PECO, the receivable from parent recorded in PECO's shareholders' equity). At March 31, 2002, the debt to total capitalization ratios on that basis for Exelon, ComEd, PECO and Generation were 48%, 46%, 39% and 26%, respectively.

Exelon and its subsidiaries' access to the capital markets, including the commercial paper market, and their financing costs in those markets are dependent on their respective securities ratings. None of Exelon's or its subsidiaries' borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under Exelon's bank credit facility. Exelon and its subsidiaries from time to time enter into interest rate swap and other derivatives that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis.

Under the Public Utility Holding Company Act of 1935 (PUHCA) and the Federal Power Act, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. However, the SEC order granted permission to Exelon and ComEd to pay up to \$500 million in dividends out of

additional paid-in capital, provided that Exelon agreed not to pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization. At March 31, 2002, Exelon had retained earnings of \$1.1 billion, which includes ComEd retained earnings of \$268 million, PECO retained earnings of \$272 million and Generation retained earnings of \$550 million.

#### Contractual Obligations and Commercial Commitments

There were no material changes from December 31, 2001 as set forth in the 10-K, other than in the normal course of business, to Exelon's contractual obligations, representing cash obligations that are considered to be firm commitments, and commercial commitments, representing commitments triggered by future events, during the three months ended March 31, 2002 except for the following:

- o ComEd issued \$400 million of First Mortgage Bonds due March 15, 2012 and called \$200 million of bonds due February 1, 2022; and
- o Guarantees increased \$410 million primarily related to an increase in the amount of surety bonds required by Enterprises' and PECO's insurance policies. Approximately one-half of these surety bonds expire in the remainder of 2002 and the other half expire in the two-year period ending December 2004.

## COMMONWEALTH EDISON COMPANY

## GENERAL

ComEd operates in a single business segment, Energy Delivery, and its operations consist of its retail electricity distribution and transmission business in northern Illinois.

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Significant Operating Trends - ComEd

	Three Months Ended March 31,		Variance	% Change
	2002	2001		
OPERATING REVENUES	\$ 1,315	\$1,446	\$ (131)	(9.1%)
OPERATING EXPENSES				
Purchased Power	538	609	(71)	(11.7%)
Operating and Maintenance	237	218	19	8.7%
Depreciation and Amortization	135	167	(32)	(19.2%)
Taxes Other Than Income	73	72	1	1.4%
Total Operating Expense	983	1,066	(83)	(7.8%)
OPERATING INCOME	332	380	(48)	(12.6%)
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(126)	(141)	15	(10.6%)
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	(7)	(7)	--	0.0%
Holding Solely the Company's Subordinated Debt Securities	14	37	(23)	(62.2%)
Other, net				
Total Other Income and Deductions	(119)	(111)	(8)	7.2%
INCOME BEFORE INCOME TAXES	213	269	(56)	(20.8%)
INCOME TAXES	84	123	(39)	(31.7%)
NET INCOME	129	146	(17)	(11.6%)
Preferred and Preference Stock Dividends	--	--	--	--
NET INCOME ON COMMON STOCK	\$ 129	\$146	\$ (17)	(11.6%)

## Net Income

Net income decreased \$17 million, or 12% for the three months ended March 31, 2002. Net income was impacted by \$48 million decrease in operating income offset in part by a lower effective income tax rate.

Operating Revenues

ComEd's electric sales statistics are as follows:

Retail Deliveries - (in GWh)	For the three months ended March 31,		% Change
	2002	2001	
<b>Bundled Deliveries (1)</b>			
Residential	6,409	6,307	1.6%
Small Commercial & Industrial	5,450	5,875	(7.2%)
Large Commercial & Industrial	1,956	2,890	(32.3%)
Public Authorities & Electric Railroads	1,801	2,010	(10.4%)
	15,616	17,082	(8.6%)
<b>Unbundled Deliveries (2)</b>			
ARES			
Small Commercial & Industrial	1,004	462	117.3%
Large Commercial & Industrial	1,386	1,163	19.2%
Public Authorities & Electric Railroads	138	43	220.9%
	2,528	1,668	51.6%
PPO			
Small Commercial & Industrial	763	823	(7.3%)
Large Commercial & Industrial	1,311	1,359	(3.5%)
Public Authorities & Electric Railroads	242	258	(6.2%)
	2,316	2,440	(5.1%)
Total Unbundled Deliveries	4,844	4,108	17.9%
Total Retail Deliveries	20,460	21,190	(3.4%)

(1) Bundled service 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.

(2) Unbundled service reflects customers electing to receive electric generation service from an ARES or the PPO.

Electric Revenue (in millions)	For the three months ended March 31,		Variance	% Change
	2002	2001		
<b>Bundled Revenues (1)</b>				
Residential	\$ 518	\$ 534	\$ (16)	(3.0%)
Small Commercial & Industrial	391	413	(22)	(5.3%)
Large Commercial & Industrial	102	136	(34)	(25.0%)
Public Authorities & Electric Railroads	92	106	(14)	(13.2%)
	1,103	1,189	(86)	(7.2%)
<b>Unbundled Revenues (2)</b>				
ARES				
Small Commercial & Industrial	12	13	(1)	(7.7%)
Large Commercial & Industrial	10	27	(17)	(63.0%)
Public Authorities & Electric Railroads	2	1	1	100.0%
	24	41	(17)	(41.5%)
PPO				
Small Commercial & Industrial	43	37	6	16.2%
Large Commercial & Industrial	64	61	3	4.9%
Public Authorities & Electric Railroads	13	12	1	8.3%
	120	110	10	9.1%
<b>Total Unbundled Revenues</b>	<b>144</b>	<b>151</b>	<b>(7)</b>	<b>(4.6%)</b>
<b>Total Electric Retail Revenues</b>	<b>1,247</b>	<b>1,340</b>	<b>(93)</b>	<b>(6.9%)</b>
<b>Wholesale and Miscellaneous Revenue (3)</b>	<b>68</b>	<b>106</b>	<b>(38)</b>	<b>(35.8%)</b>
<b>Total Electric Revenue</b>	<b>\$ 1,315</b>	<b>\$ 1,446</b>	<b>\$ (131)</b>	<b>(9.1%)</b>

- (1) Bundled service 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.
- (2) 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. Revenues from customers choosing the PPO includes an energy charge at market rates, transmission, and distribution charges and a CTC charge.
- (3) Wholesale and miscellaneous revenues include sales to ARES, transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001, are attributable to the following:

(in millions)	Variance
Weather	\$ (53)
Rate Changes	(27)
Customer Choice	(39)
Other Effects	26
<b>Electric Retail Revenue</b>	<b>(93)</b>

- o Weather. The weather impact for the three months ended March 31, 2002 was unfavorable compared to the three months ended March 31, 2001 as a result of warmer winter weather in 2002. Heating degree days decreased 13% in the three months ended March 31, 2002 compared to the three months ended March 31, 2001.
- o Rate Changes. The decrease attributable to rate changes reflects a 5% residential rate reduction, effective October 1, 2001, required by the Illinois restructuring legislation.



- o Customer Choice. ComEd non-residential 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. The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO. As of March 31, 2002, approximately 21,200 retail customers had elected to purchase energy from an ARES or the ComEd PPO. This represents an increase in delivered MWhs to such customers from approximately 4.1 million for the three months ended March 31, 2001 to 4.8 million for the three months ended March 31, 2002, or from 19% to 24% of total quarterly retail deliveries.
- o Other Effects. A strong housing construction market in Chicago contributed to residential and small commercial and industrial customer volume growth, partially offset by the unfavorable impact of a slower economy on large commercial and industrial customers.

The reduction in Wholesale revenue for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001 was due primarily to a \$28 million decrease in off-system sales due to the expiration of wholesale contracts that were offered by ComEd from June 2000 to May 2001 to support the open access program in Illinois.

#### Purchased Power Expense

Purchased power expense decreased \$71 million, or 12% for the three months ended March 31, 2002. The decrease in purchased power expense was primarily attributable to a \$20 million decrease due to unfavorable weather conditions, a \$33 million decrease as a result of customers choosing to purchase energy from an ARES, and a \$26 million decrease due to the expiration of the wholesale contracts offered by ComEd to support the open access program in Illinois.

#### Operating and Maintenance Expense

Operating and maintenance (O&M) expense increased \$19 million, or 9%, for the three months ended March 31, 2002. The increase in O&M expense was primarily attributable to a \$5 million increase in both bad debt expense and claims expense due to revised estimates, and an increase in Corporate allocations due to higher executive severance and increased pension and post-retirement benefit costs.

#### Depreciation and Amortization Expense

Depreciation and amortization expense decreased \$32 million, or 19%, for the three months ended March 31, 2002. This decrease is primarily due to the discontinuation of goodwill amortization effective January 1, 2002 upon the adoption of SFAS No. 142.

#### Taxes Other Than Income

Taxes other than income remained consistent from period to period.

#### Interest Charges

Interest charges consist of interest expense and distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts. Interest charges decreased \$15 million, or 10%, for the three months ended March 31, 2002. The decrease in interest expense was primarily attributable to the impact of lower interest rates for the three months ended

March 31, 2002 as compared to the three months ended March 31, 2001, the early retirement of the \$196 million of First Mortgage Bonds in November of 2001 and the annual retirement of \$340 million in Transitional Trust Notes.

#### Other Income and Deductions

Other income and deductions, excluding interest charges, decreased \$23 million, for the three months ended March 31, 2002. The decrease was primarily attributable to \$5 million in intercompany interest income relating to the \$352 million outstanding receivable from PECO at March 31, 2001, and a \$15 million reduction in intercompany interest income from Unicom Investment Inc., reflecting lower interest rates.

#### Income Taxes

The effective income tax rate was 39.4% for the three months ended March 31, 2002, compared to 45.7% for the three months ended March 31, 2001. The decrease in the effective tax rate was primarily attributable to the discontinuation of goodwill amortization as of January 1, 2002, which was not deductible for income tax purposes.

#### LIQUIDITY AND 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. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and the general business condition of ComEd and the utility industry. ComEd's business is capital intensive. Capital resources are used primarily to fund ComEd's capital requirements, including construction, repayments of maturing debt, and the payment of common stock dividends.

#### Cash Flows from Operating Activities

Cash flows provided by operations were \$285 million for the three months ended March 31, 2002 compared to \$492 million for the three months ended March 31, 2001. The decrease in cash flows in 2002 was primarily attributable to a \$229 million decrease in working capital as a result of the paydown of intercompany payables to affiliates and other outstanding liabilities. ComEd's future cash flows will depend upon the ability to achieve cost savings in operations, and the impact of the economy, weather, and customer choice on its revenues. Although the amounts may vary from period to period as a result of uncertainties inherent in the business, ComEd expects to continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities were \$182 million for the three months ended March 31, 2002 compared to \$189 million for the three months ended March 31, 2001. The decrease in cash flows used in investing activities in 2002 was primarily attributable to the \$52 million decrease in capital expenditures partially offset by a \$48 million paydown of the \$400 million outstanding receivable with PECO in the first quarter of 2001.

ComEd estimated that it will spend approximately \$781 million in total capital expenditures for 2002. Approximately two thirds of the budgeted 2002

expenditures are for continuing efforts to further improve the reliability of its transmission and distribution systems. The remaining one third 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 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 were \$44 million for the three months ended March 31, 2002 as compared to \$154 million for the three months ended March 31, 2001. Cash flows used in financing activities were primarily attributable to debt service and payments of dividends to Exelon. ComEd's debt financing activities for the three months ended March 31, 2002 reflected the issuance of \$400 million in First Mortgage Bonds, the retirement of \$89 million of transitional trust notes and the early retirement of \$200 million in First Mortgage Bonds with available cash. For the three months ended March 31, 2001, ComEd's debt financing activities reflected the retirement of \$89 million of transitional trust notes. ComEd paid a \$118 million dividend to Exelon during the three months ended March 31, 2002 compared to a \$63 million dividend for the three months ended March 31, 2001.

#### Credit Issues

ComEd meets its short-term liquidity requirements primarily through the issuance of commercial paper, borrowings under bank credit facilities and borrowings from the Exelon intercompany money pool. ComEd, along with Exelon, PECO and Generation entered into a \$1.5 billion unsecured 364-day revolving credit facility on December 12, 2001 with a group of banks. ComEd has a \$300 million sublimit under the credit facility and expects to use the credit facility principally to support its \$300 million commercial paper program. This credit facility requires ComEd to maintain a debt to total capitalization ratio of 65% or less (excluding transitional trust notes). At March 31, 2002, ComEd's debt to total capitalization ratio on that basis was 46%. At March 31, 2002, ComEd had no short-term borrowings.

ComEd's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of ComEd's borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities. ComEd from time to time enters into interest rate swaps and other derivatives that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis.

At March 31, 2002, ComEd's capital structure, excluding the deduction from shareholders' equity of the \$906 million receivable from Exelon, consisted of 52% long-term debt, 46% of common stock, and 2% of preferred securities of subsidiaries. Long-term debt included \$2.2 billion of transitional trust notes constituting obligations of certain consolidated special purpose entities representing 17% of capitalization.

Under PUHCA and the Federal Power Act, ComEd can only pay dividends from retained or current earnings. However, the SEC has authorized ComEd to pay up to \$500 million in dividends out of additional paid-in capital, provided ComEd may not pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization (including transitional trust notes). At March 31, 2002, ComEd had retained earnings of \$268 million.

#### Contractual Obligations and Commercial Commitments

There were no material changes from December 31, 2001 as set forth in the 10-K, other than in the normal course of business, to ComEd's contractual obligations, representing cash obligations that are considered to be firm commitments, and commercial commitments, representing commitments triggered by future events, during the three months ended March 31, 2002 except the issuance of \$400 million of First Mortgage Bonds due March 15, 2012 and the call of \$200 million of bonds due February 1, 2022.

## PECO ENERGY COMPANY

## GENERAL

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

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

	Three Months Ended March 31,		Variance	% Change
	2002	2001		
OPERATING REVENUES	\$ 1,020	\$1,051	\$ (31)	(3.0%)
OPERATING EXPENSES				
Fuel and Purchased Power	486	488	(2)	(0.4%)
Operating and Maintenance	136	132	4	3.0%
Depreciation and Amortization	112	101	11	10.9%
Taxes Other Than Income	59	43	16	37.2%
Total Operating Expense	793	764	29	3.8%
OPERATING INCOME	227	287	(60)	(20.9%)
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(95)	(110)	15	13.6%
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership which holds Solely Subordinated Debentures of the Company	(2)	(2)	--	0.0%
Other, net	1	15	(14)	(93.3%)
Total Other Income and Deductions	(96)	(97)	1	(1.0%)
INCOME BEFORE INCOME TAXES	131	190	(59)	(31.1%)
INCOME TAXES	42	68	(26)	(38.2%)
NET INCOME	89	122	(33)	(27.1%)
Preferred Stock Dividends	(2)	(2)	--	0.0%
NET INCOME ON COMMON STOCK	\$ 87	\$ 120	\$ (33)	(27.5%)

Net income on common stock decreased \$33 million, or 28% for the quarter ended March 31, 2002 as compared to the same 2001 period. The decrease was a result of lower margins due to the unplanned return of certain commercial and industrial customers, milder weather, increased depreciation and amortization expense and higher gross receipts taxes partially offset by favorable rate adjustments.

PECO's electric sales statistics are as follows:

Deliveries - (in GWh)	For the three months ended March 31,		% Change
	2002	2001	
-----			
Bundled Deliveries (1)			
Residential	2,056	2,459	(16.4%)
Small Commercial & Industrial	1,757	1,001	75.5%
Large Commercial & Industrial	3,351	2,531	32.4%
Public Authorities & Electric Railroads	193	193	0.0%
-----			
	7,357	6,184	19.0%
-----			
Unbundled Deliveries (2)			
Residential	792	527	50.3%
Small Commercial & Industrial	96	892	(89.2%)
Large Commercial & Industrial	103	1,189	(91.3%)
Public Authorities & Electric Railroads	--	5	(100.0%)
-----			
	991	2,613	(62.1%)
-----			
Total Retail Deliveries	8,348	8,797	(5.1%)
-----			

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy, the delivery cost of the transmission and distribution of the energy and a CTC charge.

(2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.

Electric Revenue (in millions)	Three Months Ended March 31,		Variance	% Change
	2002	2001		
-----				
Bundled Revenue (1)				
Residential	\$ 243	\$ 281	\$ (38)	(13.5%)
Small Commercial & Industrial	189	107	82	76.6%
Large Commercial & Industrial	244	183	61	33.3%
Public Authorities & Electric Railroads	18	17	1	5.9%
-----				
	694	588	106	27.2%
-----				
Unbundled Revenue (2)				
Residential	54	36	18	50.0%
Small Commercial & Industrial	5	40	(35)	(8.8%)
Large Commercial & Industrial	3	35	(32)	(91.4%)
Public Authorities & Electric Railroads	--	1	(1)	(100.0%)
-----				
	62	112	(50)	(44.6%)
-----				
Total Electric Retail Revenues	756	700	56	8.0%
Wholesale and Miscellaneous Revenue (3)	55	56	(1)	(1.8%)
-----				
Total Electric Revenue	\$ 811	\$ 756	\$ 55	7.3%
-----				

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy, the delivery cost of the transmission and distribution of the energy and a CTC charge.

(2) Revenue from customers receiving generation from an alternate supplier includes a transmission and distribution charge and a CTC charge.

(3) Wholesale and miscellaneous revenues include sales, transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the quarter ended March 31, 2002, as compared to the same 2001 period, are as follows:

(in millions)	Variance
Customer Choice	\$80
Rate Changes	26
Weather	(19)
Other Effects	(31)
Retail Revenue	\$56

o Customer Choice. All PECO customers have choice to purchase energy from other suppliers. This choice generally does not impact kWh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO. Customers who are served by an alternate supplier continue to pay CTCs.

As of March 31, 2002, the customer load served by alternate suppliers was 1,010 MW or 13.1% as compared to 2,535 MW or 33.1% for the same period of the prior year. For the quarter ended March 31, 2002, the percent of MWh sold by PECO increased by 17.8% to 88.2% of total retail deliveries as compared to 70.4% in 2001. As of March 31, 2002, the number of customers served by alternate suppliers was 357,789 or 23.4% as compared to March 31, 2001 of 509,521 or 33.46%. This increase in the customer load, the percentage of MWh served by PECO, and the decrease in the number of customers served by alternative suppliers primarily resulted from customers selecting or returning to PECO as their electric generation supplier.

o Rate Changes. The increase in revenues attributable to rate changes primarily reflects the expiration of a 6% reduction in PECO's electric rates during the first quarter of 2001 and a \$13 million increase in the gross receipts tax effective January 1, 2002. The change in the gross receipts tax rate does not affect income. These increases are partially offset by a \$60 million rate reduction in effect for 2001 and 2002.

As permitted by the Pennsylvania Electric Competition Act, the Pennsylvania Department of Revenue has calculated a 2002 Revenue Neutral Reconciliation (RNR) adjustment to the gross receipts tax rate in order to neutralize the impact of electric restructuring on its tax revenues. The 2002 RNR adjustment increases the gross receipts tax rate which will increase PECO's annual revenues and tax obligations by approximately \$50 million per year. In January 2002, the PUC approved the adjustment to the gross receipts tax rate, which was implemented effective January 1, 2002.

o Weather. The weather impact was unfavorable compared to the prior year as a result of warmer winter weather. Heating degree-days decreased 17% for the quarter ending March 31, 2002 compared to the same 2001 period.

- o Other Effects. Other items affecting revenue during the quarter ended March 31, 2002 include:
  - o Volume. Exclusive of weather impacts, lower delivery volume affected PECO's revenue by \$17 million compared to the same 2001 period.
  - o Other. An \$11 million settlement of CTCs by a large customer in the first quarter of 2001 and the payment of \$7 million to Generation related to nuclear decommissioning cost recovery under an agreement effective September 2001 which reduced PECO's revenue compared to the prior year.

PECO's gas sales statistics for the quarter ended March 31, 2002 as compared to the same 2001 period are as follows:

	2002	2001	Variance
Deliveries in million cubic feet (mmcf)	31,357	34,230	(2,873)
Revenue (in millions)	\$209	\$295	\$ (86)

The changes in gas revenue for the quarter ended March 31, 2002, as compared to the same 2001 period, are as follows:

(in millions)	Variance
Rate Changes	\$ (35)
Weather	(30)
Volume	(21)
Gas Revenue	\$ (86)

- o Rate Changes. The unfavorable variance in rates is attributable to an adjustment of the purchased gas cost recovery by the PUC effective in December 2001. The average rate per million cubic feet for all customers for the quarter ended March 31, 2002 was 23% lower than the same 2001 period. PECO's gas rates are subject to periodic adjustments by the PUC designed to recover or refund the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.
- o Weather. The unfavorable weather impact is attributable to warmer temperatures during the quarter ended March 31, 2002 as compared to the same 2001 period. Heating degree-days decreased 17% in the quarter ended March 31, 2002 compared to the same 2001 period.
- o Volume. Exclusive of weather impacts, lower delivery volume affected revenue by \$21 million in the quarter ended March 31, 2002 compared to the same 2001 period. Total deliveries to retail customers decreased 8% in the quarter ended March 31, 2002 compared to the same 2001 period, primarily as a result of slower economic conditions in 2002 offset by increased customer growth.



#### Fuel and Purchased Power Expense

Fuel and purchased power expense for the quarter ended March 31, 2002 decreased \$2 million as compared to the same 2001 period. The decrease in fuel and purchased power expense was primarily attributable to \$35 million from lower prices related to gas, \$31 million as a result of unfavorable weather conditions and \$29 million primarily attributable to lower delivery volume related to gas. These decreases were partially offset by \$77 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier and lower PJM ancillary charges of \$9 million.

#### Operating and Maintenance Expense

O&M expense for the quarter ended March 31, 2002 increased \$4 million, or 3%, as compared to the same 2001 period. The increase in O&M expense was primarily attributable to \$7 million related to the deployment of automated meters and \$6 million related to an increased allocation of corporate expense partially offset by \$6 million of incremental costs related to a storms in the first quarter of 2001 and \$4 million associated with the write-off of excess and obsolete inventory during the first quarter of 2001.

#### Depreciation and Amortization Expense

Depreciation and amortization expense for the quarter ended March 31, 2002 increased \$11 million, or 11%, as compared to the same 2001 period. The increase was primarily attributable to \$9 million of additional amortization of PECO's CTC and an increase of \$2 million related to depreciation expense associated with additional plant in service. The additional amortization of the CTC is in accordance with PECO's original settlement under the Pennsylvania Competition Act.

#### Taxes Other Than Income

Taxes other than income for the quarter ended March 31, 2002 increased \$16 million, or 37%, as compared to the same 2001 period. The increase was primarily attributable to a \$13 million increase in the gross receipts tax on electric sales effective January 1, 2002.

#### Interest Charges

Interest charges consist of interest expense and distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS). Interest charges decreased \$15 million, or 14% in the quarter ended March 31, 2002 as compared to the same 2001 period. The decrease was primarily attributable to lower interest expense on long-term debt of \$10 million as a result of scheduled principal payments and lower interest rates and interest expense related to a loan from an affiliate in 2001 of \$5 million.

#### Other Income and Deductions

Other income and deductions excluding interest charges decreased \$14 million, or 93% in the quarter ended March 31, 2002 as compared to the same 2001 period. The decrease in other income and deductions was primarily attributable to a gain on the settlement of an interest rate swap of \$6 million in 2001, lower interest income of \$4 million and the favorable settlement of a customer contract of \$3 million in 2001.

#### Income Taxes

The effective tax rate was 32.0% for the quarter ended March 31, 2002 as compared to 35.8% for the same 2001 period. The decrease in the effective tax rate was primarily attributable to tax benefits associated with the implementation of state tax planning strategies and the reduced impact of investment tax credit amortization.

#### Preferred Stock Dividends

Preferred stock dividends for the quarter ended March 31, 2002 were consistent as compared to the same 2001 period.

#### LIQUIDITY AND CAPITAL RESOURCES

PECO'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. PECO's access to external financing at reasonable terms is dependent on its credit ratings and the general business condition of PECO and the utility industry. PECO's business is capital intensive. Capital resources are used primarily to fund PECO's capital requirements, including construction, repayments of maturing debt and preferred securities and payment of common stock dividends to Exelon.

#### Cash Flows from Operating Activities

Cash flows provided by operations for the quarter ended March 31, 2002 were \$100 million compared to cash flows used in operations of \$45 million for the quarter ended March 31, 2001. The increase in cash flows was primarily attributable to an increase in working capital of \$118 million as a result of the repayment of intercompany receivables from affiliate and customer accounts receivable. PECO's cash flow from operating activities primarily results from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices. PECO's future cash flows will depend upon the ability to achieve cost savings in operations, and the impact of the economy, weather and customer choice on its revenues. Although the amounts may vary from period to period as a result of the uncertainties inherent in its business, PECO expects that it will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities for the quarter ended March 31, 2002 were \$65 million, compared to \$46 million for the quarter ended March 31, 2001. The increase in cash flows used in investing activities was primarily attributable to an increase in capital expenditures and an increase in other investing activities. PECO's projected capital expenditures for 2002 are \$279 million.

Approximately one half of the budgeted 2002 expenditures are for capital additions to support customer and load growth and the remainder for additions to or upgrades of existing facilities. 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 quarter ended March 31, 2002 were \$36 million compared to cash flows provided by financing activities of \$99 million for the quarter ended March 31, 2001. Cash flows used in financing activities are primarily attributable to debt service and payment of dividends to Exelon. The change in cash flows used in financing activities is primarily attributable to a lower level of commercial paper borrowing in the first quarter of 2002 of \$115 million, additional debt service of \$42 million, additional dividends paid to Exelon of \$40 million and proceeds from the settlement of increase rate swap agreements of \$31 million in 2001. These changes in cash flows used in financing activities were partially offset by an increase in restricted cash of \$47 million and payable to affiliate of \$46 million. For the quarter ended March 31, 2002, PECO paid Exelon \$85 million in common stock dividends compared to \$45 million for the quarter ended March 31, 2001.

#### Credit Issues

At March 31, 2002, PECO had outstanding \$159 million of notes payable consisting principally of commercial paper. Certain of the credit agreements to which PECO is a party requires PECO to maintain a debt to total capitalization ratio of 65% or less, excluding securitization debt and excluding the receivable from parent recorded in PECO's shareholders' equity. At March 31, 2002, the debt to total capitalization ratios on that basis for PECO was 39%.

PECO's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of PECO's borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under PECO's bank credit facility. PECO from time to time enters into interest rate swap and other derivatives that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis.

At March 31, 2002, PECO's capital structure, excluding the deduction from shareholders' equity of the \$1.8 billion receivable from Exelon, consisted of 26% common equity, 3% preferred stock and COMRPS (which comprised 2% of PECO's total capitalization structure), and 71% long-term debt including transition bonds issued by PECO Energy Transition Trust (PETT). Long-term debt included \$4.4 billion of transition bonds representing 52% of capitalization.

Under PUHCA and the Federal Power Act, PECO can pay dividends only from retained or current earnings. At March 31, 2002, PECO had retained earnings of \$272 million.

Contractual Obligations and Commercial Commitments

There were no material changes from December 31, 2001 as set forth in the 10-K, other than in the normal course of business, to PECO's contractual obligations, representing cash obligations that are considered to be firm commitments, and commercial commitments, representing commitments triggered by future events, during the three months ended March 31, 2002 except for an \$85 million increase in the amount of surety bonds required by PECO's insurance policies. Approximately one-fourth of the surety bonds expire in the remainder of 2002 and the other three-fourths expire in the two-year period ending December 2004.

## EXELON GENERATION COMPANY, LLC

## GENERAL

The operations of Generation consist of electric generating facilities, energy marketing operations and equity interests in Sithe and AmerGen.

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

## Significant Operating Trends - Generation

	Three Months Ended March 31, 2002	2001	Variance	% Change
OPERATING REVENUES	\$ 1,975	\$1,628	\$ 347	21.3%
OPERATING EXPENSES				
Fuel and Purchased Power	1,342	818	524	64.1%
Operating and Maintenance	432	404	28	6.9%
Depreciation and Decommissioning	63	92	(29)	(31.5%)
Taxes Other Than Income	49	46	3	6.5%
Total Operating Expense	1,886	1,360	526	38.7%
OPERATING INCOME	89	268	(179)	(66.8)%
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(17)	(33)	16	(48.5%)
Equity in Earnings (Losses) of Unconsolidated Affiliates, net	23	26	(3)	(11.5%)
Other, net	16	4	12	300.0%
Total Other Income and Deductions	22	(3)	25	(833.3%)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	111	265	(154)	(58.1%)
INCOME TAXES	45	107	(62)	(57.9%)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	66	158	(92)	(58.2%)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF INCOME TAXES	13	12	1	8.3%
NET INCOME	\$ 79	\$ 170	(91)	(53.5%)

## Net Income

Generation's net income decreased by \$91 million, or 54%, for the three months ended March 31, 2002 compared to the same period in the prior year. Net income was impacted by lower margins on wholesale energy sales due to lower market prices for energy, lower volumes sold to affiliates due to a weather-driven reduction in Energy Delivery's demand and by higher operating and maintenance expense. Operating and maintenance expense increased due to four additional nuclear generating station refueling outages, partially offset by employee reductions and other non-outage operating cost reductions. Depreciation expense declined reflecting an extension of the estimated service lives of certain generating stations.

Operating Revenues, Net of Fuel and Purchased Power

Operating revenues, net of fuel and purchased power were \$633 million for the three months ended March 31, 2002 compared to \$810 million for the same period in the prior year. This represents a \$177 million decrease, or 22%. This decrease resulted primarily from milder weather during the 2002 quarter relative to the prior year, which decreased Generation's GWh deliveries to Exelon Delivery by 5%. These volumes were then sold into the wholesale market where prices were approximately 29% lower than in the prior year. These factors were slightly offset by a 3% increase in realized prices from Exelon Delivery and the commencement of trading operations in the second quarter of the prior year. Revenues for the three months ended March 31, 2002 increased primarily due to \$515 million related to the trading portfolio, which was initiated in April 2001, offset by reduced sales volumes to retail affiliates. Fuel and purchased power expense similarly includes \$514 million related to this trading activity. Realized trading margin was approximately \$1 million in the three month period ended March 31, 2002. Non-cash mark-to-market gains were approximately \$3 million on the trading and non-trading portfolios.

For the three months ended March 31, 2002 and 2001, Generation's sales and the supply of these sales were as follows:

	Three Months Ended March 31,	
	2002	2001
Energy Delivery	27,750	29,204
Exelon Energy	1,250	1,591
Market Sales	19,324	17,459
Trading Portfolio	14,239	--
Total	62,563	48,254

(in GWhs)	Three Months Ended March 31,	
	2002	2001
Nuclear Units	28,752	31,206
Purchases - non-trading portfolio	18,093	15,561
Purchases - trading portfolio	14,239	--
Fossil and Hydro Units	1,479	1,487
Total	62,563	48,254

Generation's average margins on energy sales for the three months ended March 31, 2002 and 2001 are as follows:

(\$/MWh)	Three Months Ended March 31,	
	2002	2001
<hr/>		
Average Realized Revenue		
Energy Delivery	\$ 29.98	\$ 29.11
Exelon Energy	45.60	38.34
Market Sales	28.15	39.69
Trading Portfolio	36.17	n.a.
Total Sales - including the trading portfolio	31.14	n.a.
Total Sales - excluding the trading portfolio	29.63	33.24
Average Supply Cost - including the trading portfolio	\$ 21.15	n.a.
Average Supply Cost - excluding the trading portfolio	16.74	16.74
Average Margin - including the trading portfolio	\$ 9.99	n.a.
Average Margin - excluding the trading portfolio	12.89	16.50
<hr/>		

n.a. - not applicable as trading activities were initiated in April 2001.

Generation's nuclear fleet, including AmerGen, performed at a capacity factor of 90.3% for the three months ended March 31, 2002 compared to 98.8% for the same period in 2001. Generation's nuclear fleet's production costs, including AmerGen, for the three months ended March 31, 2002 were \$14.26 per MWh compared to \$11.68 per MWh for the same period in 2001. The lower capacity factor and higher unit production costs reflect the increased number of planned refueling outages in the current period. Generation's average purchased power costs for wholesale operations were \$34.39 per MWh for the first quarter of 2002, compared to \$38.17 per MWh for the same period in 2001. The decrease in purchase power costs resulted from the decrease in wholesale power market prices.

#### Operating and Maintenance

Operating and maintenance expenses increased \$28 million, or 7%, for the three months ended March 31, 2002 compared to the same period in the prior year. This was primarily due to the additional operating and maintenance costs of \$62 million arising from four planned nuclear plant outages during the three months ended March 31, 2002 compared to zero outages in the same period in the prior year and allocated corporate costs including executive severance. These additional expenses were offset by other operating cost reductions realized from Exelon's cost management initiative and a \$10 million reduction in Generation's severance accrual. The severance reduction represents a reversal of costs previously charged to operating expense.

#### Depreciation and Decommissioning

Depreciation and decommissioning expenses decreased \$29 million, or 32%, for the three months ended March 31, 2002 compared to the same period in the prior year due to a \$35 million reduction in depreciation expense arising from the extension of the useful lives on certain generation facilities in the second and third quarters of 2001, partially offset by additional depreciation expense on capital additions placed in service subsequent to the first quarter of 2001.

#### Taxes Other Than Income

Taxes other than income increased \$3 million, or 7%, for the three months ended March 31, 2002 compared to the same period in the prior year due primarily to an increase in capital stock taxes of \$2 million.

#### Interest Expense

Interest expense decreased \$16 million, or 49%, for the three months ended March 31, 2002, compared to the same period in the prior year. The decrease is primarily due to \$15 million of affiliated interest expense paid during the three month period ended March 31, 2001 which was not incurred during 2002 as the related borrowing had been repaid.

#### Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates decreased \$3 million, or 12%, for the three months ended March 31, 2002 compared to the same period in the prior year. This decrease was due to a \$5 million reduction in AmerGen equity earnings arising from a planned plant outage during the three months ended March 31, 2002 partially offset by \$2 million of additional equity earnings from Sithe.

#### Other, net

Other, net increased \$12 million, or 300%, for the three months ended March 31, 2002 compared to the same period in the prior year. Other, net includes an increase of \$11 million of investment income from the nuclear decommissioning trust funds for the three months ended March 31, 2002 compared to the same period in the prior year. The nuclear decommissioning trust fund results consist of realized gains and losses and dividend income net of investment expenses.

#### Income Taxes

The effective income tax rate was substantially unchanged at 40.5% for the three months ended March 31, 2002 compared to 40.4% for the same period in the prior year.

#### Cumulative Effect of Changes in Accounting Principles

On January 1, 2002, Generation adopted SFAS No. 141 resulting in a benefit of \$13 million, net of income taxes of \$9 million.

On January 1, 2001, Generation adopted SFAS No. 133, as amended, resulting in a benefit of \$12 million, net of income taxes of \$7 million.

#### LIQUIDITY AND CAPITAL RESOURCES

Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financings and borrowings or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on Generation's credit ratings and general business condition, as well as the general business conditions of the industry. Generation's business is capital intensive. Capital resources are used primarily to fund capital requirements, including construction, investments in new and existing ventures, and repayments of maturing debt. Any potential future acquisitions could require external financing or borrowings or capital contributions for Exelon.



#### Cash Flows from Operating Activities

Cash flows provided by operations were \$509 million for the three months ended March 31, 2002, compared to \$362 million for the same period in the prior year. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Generation's affiliated companies, as well as settlements arising from Generation's trading activities. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs.

#### Cash Flows from Investing Activities

Cash flows used in investing activities were \$379 million for the three months ended March 31, 2002, compared to \$139 million for the same period in the prior year. Capital expenditures of \$132 million, investment in nuclear fuel of \$156 million and the funding of a \$46 million loan to AmerGen, an affiliate, represented the majority of the cash used in investing activities in the three month period ended March 31, 2002 compared to capital expenditures of \$40 million and investment in nuclear fuel of \$78 million in the same period in the prior year. Generation's capital expenditures are projected to be approximately \$1.1 billion in 2002, approximately 80% of which is for additions to and upgrades of existing facilities and nuclear fuel and 20% is for increases in generating capacity and development. Eleven nuclear refueling outages, including AmerGen, are planned for 2002, compared to six during 2001. Four refueling outages occurred during the three months ended March 31, 2002 compared to no outages in the same period in the prior year. Generation's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

In addition to the 2002 capital expenditures of \$1.1 billion, Generation closed the purchase of two natural-gas and oil-fired plants from TXU Corp. (TXU) on April 25, 2002. The \$443 million purchase was funded with available cash and borrowings from Exelon.

#### Cash Flows from Financing Activities

Cash flows provided by financing activities were \$1 million for the three months ended March 31, 2002, compared to cash used of \$36 million for the same period in the prior year. The prior year amount represented net distributions to Exelon which did not recur in the current period.

#### Credit Issues

Generation meets its short-term liquidity requirements primarily through the issuance of commercial paper, borrowings under bank credit facilities and borrowings from the Exelon intercompany money pool. Generation, along with Exelon, ComEd and PECO entered into a \$1.5 billion unsecured 364-day revolving credit facility on December 12, 2001 with a group of banks. As of March 31, 2002, no sublimit had been established for Generation under this credit facility. This credit facility requires Generation to maintain a debt to total capitalization ratio of 65% or less. At March 31, 2002, Generation's debt to total capitalization ratio on that basis was 26%.

Generation's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its

securities ratings. None of Generation's borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities.

From time to time Generation enters into interest rate swap and other derivatives that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis.

At March 31, 2002, Generation's capital structure consisted of 26% long-term debt and 74% member's equity.

Under PUHCA and the Federal Power Act, Generation can only pay dividends from undistributed or current earnings. At March 31, 2002, Generation had undistributed earnings of \$550 million.

#### Contractual Obligations and Commercial Commitments

There were no material changes from December 31, 2001 as set forth in the 10-K, other than in the normal course of business, to Generation's contractual obligations, representing cash obligations that are considered to be firm commitments, and commercial commitments, representing commitments triggered by future events, during the three months ended March 31, 2002.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### Commodity Price Risk Generation

Exelon's energy contracts are accounted for under SFAS No. 133. Most non-trading contracts qualify for a normal purchases and normal sales exception. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying cash-flow hedge contracts are recorded in accumulated other comprehensive income, and gains and losses are recognized in earnings when the underlying transaction matures. Mark-to-market gains and losses on other 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. Amounts recognized in earnings related to energy contracts for the three months ended March 31, 2002 include \$48 million of realized gains from cash-flow hedge contract settlements and \$2 million in non-cash mark-to market gains on other derivative contracts.

Outlined below is a summary of the changes in fair value for those contracts included as assets and liabilities in the Consolidated Balance Sheet for the three months ended March 31, 2002:

(in millions)	Non-trading	Trading
Fair value of contracts outstanding as of January 1, 2002	\$ 78	\$ 14
Change in fair value during the three months ended March 31, 2002:		
Contracts settled during period	(44)	(4)
Mark-to-market gain/(loss) on contracts entered into during the period	11	(1)
Mark to market gain/(loss) on other contracts	(83)	1
Changes in fair value attributable to changes in valuation techniques and assumptions	--	--
<b>Total change in fair value</b>	<b>(116)</b>	<b>(4)</b>
Fair value of contracts outstanding at March 31, 2002	\$ (38)	\$ 10

The total change in fair value during the three months ended March 31, 2002 is reflected in the first quarter 2002 financial statements as follows:

	Non-trading	Trading
Mark-to-market gain/(loss) on non-qualifying hedge contracts or hedge ineffectiveness reflected in earnings	\$ 6	\$ (4)
Mark-to-market gain/(loss) on cash-flow hedge contracts reflected in Other Comprehensive Income	(122)	--
<b>Total change in fair value</b>	<b>\$ (116)</b>	<b>\$ (4)</b>

The majority of Exelon's contracts are non-exchange traded contracts valued using prices provided by external sources, which primarily represent price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that Exelon believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, by region and by product. The remainder of the assets represent 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, and other valuation techniques and are discounted using a risk-free interest rate. The fair values in each category reflect the level of forward prices and volatility factors as of March 31, 2002 and may change as a result of future changes in these factors.

Mark-to market gains and losses on qualifying cash-flow hedge contracts are recorded in accumulated other comprehensive income, and will be reclassified into earnings when the contract settles. Mark-to-market gains and losses on derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts have been recognized in earnings on a current basis. The maturities, or expected settlement dates, of the qualifying cash flow hedge contracts recorded in accumulated other comprehensive income, and the other non-trading and trading derivative contracts and sources of fair value as of March 31, 2002 are as follows:

(in millions)	Maturities within			Total Fair Value
	1 Year	2-3 Years	4-5 Years	
-----				
Non-trading, qualifying cash flow hedge contracts(1):				
Prices provided by other external sources	\$ (7)	\$ (38)	\$ --	\$ (45)
Total	\$ (7)	\$ (38)	\$ --	\$ (45)
-----				
Non-trading, other derivative contracts(2):				
Actively quoted prices	6	--	--	6
Prices provided by other external sources	18	--	(7)	11
Prices based on model or other valuation methods	(1)	--	(9)	(10)
Total	\$ 23	\$ --	\$ (16)	\$ 7
-----				
Trading, other derivative contracts(3):				
Actively quoted prices	\$ (1)	\$ --	\$ --	\$ (1)
Prices provided by other external sources	6	1	--	7
Prices based on model or other valuation methods	3	1	--	4
Total	\$ 8	\$ 2	\$ --	\$ 10
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- (1) Mark-to-market gains and losses on contracts that qualify as cash-flow hedges are recorded in other comprehensive income.
- (2) Mark-to-market gains and losses on other non-trading derivative contracts that do not qualify as cash-flow hedges are recorded in earnings.
- (3) Mark-to-market gains and losses on trading contracts are recorded in earnings.

#### Interest Rate Risk ComEd

ComEd has entered into fixed-to-floating interest rate swaps to manage interest rate exposure associated with three fixed rate debt issuances in the aggregate amount of \$485 million. At March 31, 2002, these interest rate swaps, designated as fair value hedges, had a fair market value exposure of \$1 million based on the present value difference between the contract and market rates at March 31, 2002. In February 2002, ComEd entered into two forward starting interest rate swaps in the aggregate amount of \$175 million to lock in interest rate levels in anticipation of future financing. At March 31, 2002, these interest rate swaps, designated as cash flow hedges, had a fair market value of \$5 million.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point decrease in the spot yield at March 31, 2002 is estimated to be \$8 million. If the derivative instruments had been terminated at March 31, 2002, this estimated fair value represents the amount to be paid by ComEd to the counterparties.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point increase in the spot yield at March 31, 2002 is estimated to be \$0 million. If the derivative instruments had been terminated at March 31, 2002, this estimated fair value represents the amount to be paid by ComEd to the counterparties.

In connection with the issuance of \$400 million of First Mortgage Bonds in March of 2002, ComEd settled forward starting interest rate swaps in the aggregate amount of \$375 million resulting in a \$9 million loss recorded in other comprehensive income, which was deferred and is being amortized over the expected remaining life of the related debt.

#### PECO

PECO has entered into interest rate swaps to manage interest rate exposure associated with two classes of floating rate transition bonds issued to securitize stranded cost recovery. At March 31, 2002, these interest rate swaps had a fair market value exposure of \$14 million based on the present value difference between the contract and market rates at March 31, 2002.

The aggregate fair value exposure of the transition bond derivative instruments that would have resulted from a hypothetical 50 basis point decrease in the spot yield at March 31, 2002 is estimated to be \$17 million. If the derivative instruments had been terminated at March 31, 2002, this estimated fair value represents the amount to be paid by PECO to the counterparties.

The aggregate fair value exposure of the transition bond derivative instruments that would have resulted from a hypothetical 50 basis point increase in the spot yield at March 31, 2002 is estimated to be \$12 million. If the derivative instruments had been terminated at March 31, 2002, this estimated fair value represents the amount to be paid by PECO to the counterparties.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 8, 2002, a class action lawsuit was filed against Exelon on behalf of purchasers of Exelon securities between April 24, 2001 and September 27, 2001 (Class Period). The lawsuit was filed in the United States District Court for the Northern District of Illinois, Eastern Division. The complaint alleges that Exelon violated Federal securities laws by issuing a series of materially false and misleading statements relating to its 2001 earnings expectations during the Class Period. Corbin A. McNeill, Jr., John Rowe and Ruth Ann Gillis were also named as defendants. Exelon believes that the lawsuit is without merit and will vigorously contest this matter.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 23, 2002, Exelon held its 2002 Annual Meeting of Shareholders.

Proposal 1 was the election of five Class II directors to serve three-year terms expiring in 2005. The following directors were elected:

	Votes For	Votes Withheld
Edward A. Brennan	258,188,435	4,087,852
Bruce DeMars	258,425,840	3,850,447
Richard H. Glanton	257,786,906	4,489,381
John W. Rowe	258,478,505	3,797,782
Ronald Rubin	258,098,129	4,178,158

Proposal 2 was the ratification of PricewaterhouseCoopers LLP as independent accountants for Exelon and its subsidiaries for 2002. The shareholders approved the proposal with 250,309,286 votes cast for, 9,667,089 votes cast against and 2,299,912 votes abstaining.

Proposal 3 was the approval of the Exelon Corporation Employee Stock Purchase Plan. The shareholders approved the Plan with 252,802,074 votes cast for, 6,216,999 votes cast against, 3,257,214 votes abstaining, and no non-votes.

Proposal 4 was the approval of amendments to the Exelon Corporation Long Term Incentive Plan. The shareholders approved the amendments with 210,099,740 votes for, 47,805,508 votes against, 4,371,039 votes abstaining, and no non-votes.

Proposal 5 was a shareholder proposal to recommend investment in clean energy. The shareholders rejected the proposal with 14,767,776 votes for, 209,819,696 votes against, 9,376,947 votes abstaining, and 28,311,868 non-votes.

ITEM 5. OTHER INFORMATION

Exelon

As previously reported in Exelon's Form 8-K dated March 1, 2002, Enterprises announced an agreement to sell its 49% interest in AT&T Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for \$285 million in cash. On April 1, 2002, the transaction closed.

ComEd

As previously reported in the 2001 Form 10-K, in connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the Illinois Commerce Commission (ICC) to approve the transfer of the associated

nuclear decommissioning trust funds. On August 17, 2000, the ICC issued an order allowing the transfer. The ICC's order was appealed to, and affirmed by, the Illinois Appellate Court. Certain intervenors asked the Illinois Supreme Court to review the Appellate Court's opinion. On April 3, 2002, the Illinois Supreme Court denied the petition for leave to appeal. This decision does not relate to the other appeal of the order allowing funds to be collected from customers subsequent to the transfer to Generation or the appeal of the amount that may be collected from customers.

As previously reported in the 2001 Form 10-K, on March 6, 2002, the participants in Alliance Transmission Company, LLC (Alliance) and National Grid submitted a petition to the FERC for a declaratory order with regard to their participation in the Midwest Independent Transmission System Operator, Inc. (MISO). On April 25, 2002, the FERC issued an order granting in part and denying in part the Alliance companies' request for a declaratory order. The FERC ordered the Alliance companies to make a filing within 30 days of the order indicating which regional transmission organization (RTO) each would join and whether they would do so individually or collectively as part of an independent transmission company. The FERC did not rule on the return of the \$60 million withdrawal fee paid collectively by ComEd, Ameren Corporation and Illinois Power Company, stating that this must be determined in conjunction with any return to MISO by any of those companies. The Alliance companies and National Grid are continuing to negotiate with both MISO and PJM with respect to RTO participation.

#### PECO

As previously reported in the 2001 Form 10-K, the Pennsylvania Electricity Generation Customer Choice and Competition Act provides for the imposition and collection of non-bypassable CTCs on customers' bills as a mechanism for utilities to recover their allowed stranded costs. In the 1998 settlement of its restructuring case, PECO agreed to negotiate with certain of its large customers the payment of their stranded investment obligations in a single lump sum. On January 11, 2002, a complaint was brought by a municipal authority requesting that the PUC require PECO to adopt specific procedures for such negotiations, including setting a specific discount rate. The complaint alleges that PECO is using an inappropriate discount rate in its evaluations, thus making the lump-sum payment of CTC financially unattractive to customers. A procedural schedule for this matter has been set, and it will be litigated through the fourth quarter of 2002.

#### Generation

Generation is a 12.5% stakeholder in Pebble Bed Modular Reactor (Pty) Ltd., which is a consortium of investors (including British Nuclear Fuels, ESKOM Enterprises and the Industrial Developmental Corporation of South Africa) that is studying the feasibility of building a demonstration reactor in South Africa and commercializing the Pebble Bed Modular Reactor (PBMR) design. On April 16, 2002, Generation announced that it would not be proceeding with the PBMR project beyond the completion of the current feasibility study phase. Generation advised PBMR (Pty) Ltd. that for the time being Generation would continue to devote technical personnel and executive leadership to the project. As of June 30, 2002, Generation's support of the project will total approximately \$20 million.

In April 2002, Generation purchased general and limited partnership interests in Louisiana Energy Services, L.P. (LES) totaling 6.75% from Graystone Corporation and Le Paz Incorporated, respectively. LES was formed in the early 1990s, by a consortium of companies, to design, build and operate a private uranium enrichment facility.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 10.1 - Exelon Agreement with Corbin A. McNeill, Jr. \*
- 99.1 - Managements Discussion and Analysis of Financial Condition and Results of Operations and Index to Financial Statements of Exelon Generation Company, LLC, filed by Exelon Generation Company, LLC with the Securities and Exchange Commission on April 24, 2002 on Registration Statement Form S-4 (File No. 333-85496).

\* Compensatory plan or arrangements in which directors or officers of the applicable registrant participate and which are not available to all employees.

(b) Reports on Form 8-K:

Exelon filed Current Reports on Form 8-K during the three months ended March 31, 2002 regarding the following items:

Date of Earliest Event Reported	Description of Item Reported
January 25, 2002	"ITEM 5. OTHER EVENTS" regarding Exelon's restatement of third quarter earnings and reaffirming 2001 earnings guidance.
January 29, 2002	"ITEM 5. OTHER EVENTS" regarding the announcement of Exelon's consolidated earnings for the year ended December 31, 2001 and "ITEM 9. REGULATION FD DISCLOSURE" regarding highlights of the Exelon Fourth Quarter Earnings Conference Call.
February 12, 2002	"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the UBS Warburg Energy and Utilities Conference. The exhibits include the slides used and copies of the materials made available to investors attending the conference.
February 18, 2002	"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the EEI International Financial Conference, London. The exhibit includes the slides used during the presentation.
February 28, 2002	"ITEM 5. OTHER EVENTS" regarding certain financial information of Exelon Corporation and Subsidiary Companies. The exhibits under "ITEM 7. FINANCIAL STATEMENT AND EXHIBITS" include the 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.

March 1, 2002 "ITEM 5. OTHER EVENTS" regarding issuance of a press release announcing the sale of Exelon's interest in a joint venture with AT&T Wireless.

March 5, 2002 "ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by John W. Rowe, President and Co-CEO of Exelon at the Morgan Stanley Global Electricity & Energy Conference in New York City. The exhibits include the slides used during the presentation and materials made available to investors attending the conference.

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ComEd filed Current Reports on Form 8-K during the three months ended March 31, 2002 regarding the following items:

Date of Earliest Event Reported	Description of Item Reported
January 29, 2002	"ITEM 5. OTHER EVENTS" regarding the announcement of Exelon's consolidated earnings for the year ended December 31, 2001 and "ITEM 9. REGULATION FD DISCLOSURE" regarding highlights of the Exelon Fourth Quarter Earnings Conference Call.
February 12, 2002	"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the UBS Warburg Energy and Utilities Conference. The exhibits include the slides used and copies of the materials made available to investors attending the conference.
February 18, 2002	"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the EEI International Financial Conference, London. The exhibit includes the slides used during the presentation.
March 5, 2002	"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by John W. Rowe, President and Co-CEO of Exelon at the Morgan Stanley Global Electricity & Energy Conference in New York City. The exhibits include the slides used during the presentation and materials made available to investors attending the conference.

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PECO filed Current Reports on Form 8-K during the three months ended March 31, 2002 regarding the following items:

Date of Earliest  
Event Reported

Description of Item Reported

January 29, 2002

"ITEM 5. OTHER EVENTS" regarding the announcement of Exelon's consolidated earnings for the year ended December 31, 2001 and "ITEM 9. REGULATION FD DISCLOSURE" regarding highlights of the Exelon Fourth Quarter Earnings Conference Call.

February 12, 2002

"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the UBS Warburg Energy and Utilities Conference. The exhibits include the slides used and copies of the materials made available to investors attending the conference.

February 18, 2002

"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by Corbin A. McNeill, Jr., Chairman and Co-CEO of Exelon at the EEI International Financial Conference, London. The exhibit includes the slides used during the presentation.

March 5, 2002

"ITEM 9. REGULATION FD DISCLOSURE" regarding a presentation by John W. Rowe, President and Co-CEO of Exelon at the Morgan Stanley Global Electricity & Energy Conference in New York City. The exhibits include the slides used during the presentation and materials made available to investors attending the conference.

Generation did not file any Current Reports on Form 8-K during the three months ended March 31, 2002.

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  
EXELON GENERATION COMPANY, LLC  
/s/ Ruth Ann M. Gillis  
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RUTH ANN M. GILLIS  
Senior Vice President and Chief Financial Officer  
Exelon Corporation  
(Chief Accounting Officer)

COMMONWEALTH EDISON COMPANY  
/s/ Robert E. Berdelle  
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ROBERT E. BERDELLE  
Vice President and Chief Financial Officer  
(Chief Accounting Officer)

PECO ENERGY COMPANY  
/s/ Frank F. Frankowski  
-----

FRANK F. FRANKOWSKI  
Vice President and Chief Financial Officer  
(Chief Accounting Officer)

Date: May 10, 2002

## SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this "Agreement") is entered into as of April 23, 2002 between Exelon Corporation, a Pennsylvania corporation (the "Company"), and Corbin A. McNeill, Jr. (the "Executive").

## W I T N E S S E T H:

WHEREAS, Executive currently serves as Chairman and Co-Chief Executive Officer of the Company and as a member of its Board of Directors; and

WHEREAS, the Company and Executive desire to set forth herein their mutual agreement with respect to all matters relating to Executive's retirement, resignation and separation from the Company and its affiliates;

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the adequacy and sufficiency of which are hereby acknowledged, the Company and Executive agree as follows:

## 1. Retirement; Resignation; Termination of Employment.

Executive hereby resigns, effective as of April 23, 2002, as Chairman and Co-Chief Executive Officer and as a member of the Board of Directors of the Company, as Chairman and President of Exelon Generation Company, LLC ("Genco"), from all other positions (if any) with the Company and from all other directorships and positions (if any) with Genco and the Company's other subsidiaries and affiliates. Executive shall continue to be employed by the Company until (and including) April 23, 2002 (the "Employment Termination Date"), at which time Executive shall cease to be an employee of, or have any other position with, the Company, its subsidiaries or their affiliates.

2. Payment of Accrued Amounts. The Company shall pay to Executive not later than three days after the Employment Termination Date the following amounts:

(a) \$8,576.92, which the Company represents and warrants equals the portion of his annual salary that has accrued but is unpaid as of the Employment Termination Date; and

(b) \$1,500,300, which the Company represents and warrants equals the greatest of (i) the annual incentive award paid to Executive for 2001, (ii) the average of the annual incentive awards paid to the Executive for calendar years 2001, 2000 and 1999 and (iii) Executive's target annual incentive award for 2002 (such greatest amount being referred to herein as the "Formula Annual Incentive").

3. Severance Payment. Provided that Executive has not revoked the releases contained in Section 15(a), the Company shall pay to Executive, not

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less than eight and no more than 15 days following the date of Executive's execution of this Agreement, a lump sum cash amount equal to \$7,845,900, representing the product of three times the sum of (a) \$1,115,000, representing Executive's annual base salary during calendar year 2001, plus (b) his Formula Annual Incentive.

4. Tax Withholding. The Company shall deduct from the amounts payable to Executive pursuant to this Agreement the amount of all required federal, state and local withholding taxes in accordance with Executive's Form W-4 on file with the Company (as such form may be modified by Executive from time to time) and all applicable social security and Medicare taxes. The Company shall be entitled to withhold from the shares of common stock of the Company to be delivered to Executive pursuant to Sections 6(b) and 6(c) a number of shares of common stock of the Company having a value (based upon the closing price of a share of the Company's common stock as reported on the New York Stock Exchange on the Employment Termination Date) equal to the minimum amount of all required federal, state and local withholding taxes and all applicable social security and Medicare taxes with respect to the lapse of forfeiture conditions applicable to shares of phantom stock and the vesting of performance shares. In calculating the amount of withholding on the payment of the SERP Benefit (as hereinafter defined), the Company will, unless otherwise required by law or regulation (a) honor the Form W-4 filed by Executive prior to such payment and (b) take into account all withholding allowances claimed on that W-4.

5. Outplacement Assistance. The Company shall, in lieu of engaging a professional outplacement organization to provide individual outplacement services to Executive for a period of up to twelve months following the Employment Termination Date, pay to Executive on the Employment Termination Date the sum of \$50,000.

## 6. Stock Awards.

(a) Each of Executive's options to purchase common stock of the Company granted pursuant to (i) the PECO Energy Company 1998 Stock Option Plan or the PECO Energy Company Long-Term Incentive Plan, including without limitation the options originally granted as of May 29, 1992, March 1, 1993, February 28, 1994, February 27, 1995, February 26, 1996, February 24, 1997, February 23, 1998 and February 29, 2000, (ii) the Exelon Corporation Long-Term Incentive Plan, including without limitation the options originally granted as of October 20, 2000, January 2, 2001 and January 28, 2002, or (iii) any other plan or agreement, shall (A) to the extent exercisable on the Employment

Termination Date, remain exercisable until the scheduled expiration date of such option as specified in the grant agreement or plan (as applicable) relating thereto (which shall not be accelerated by reason of the retirement, resignation and termination of employment contemplated hereby) and (B) to the extent not fully exercisable as of the Employment Termination Date, immediately become fully exercisable and thereafter remain exercisable until the scheduled expiration date of such option as specified in the grant agreement or plan (as applicable) relating thereto (which shall not be accelerated by reason of the retirement, resignation and termination of employment contemplated hereby).

(b) All forfeiture conditions which as of the Employment Termination Date are applicable to any deferred stock unit, restricted stock or restricted share units awarded to Executive by the Company or by PECO Energy

Company, including without limitation any shares of phantom stock of the Company issued upon the conversion, pursuant to the terms of the PECO Energy Company Long-Term Incentive Plan, of the 25,000 shares of restricted stock originally granted as of February 23, 1999, 25,000 shares of restricted stock originally granted as of February 29, 2000, and 32,500 shares of restricted stock originally granted as of September 26, 2000, shall lapse as of the Employment Termination Date.

(c) As of the Employment Termination Date, Executive shall become fully vested in 73,175 shares of common stock of the Company, representing grants of performance shares pursuant to the Company's Long Term Performance Share Award Program, of which prior to the Employment Termination Date 18,175 shares relating to the grant for calendar year 2001 were unvested and 27,500 shares relating to the target grant for each of calendar years 2002 and 2003 were unvested.

#### 7. Retirement Benefits.

(a) Executive shall receive a retirement benefit (the "SERP Benefit") from the Company determined pursuant to Section 7(b).

(b) The SERP Benefit to be provided to Executive during any year shall equal an amount which, when added to all other retirement benefits provided to Executive by the Company and its affiliates during such year (including payments under the PECO Energy Company Service Annuity provisions of the Exelon Corporation Retirement Program, the PECO Energy Company Supplemental Pension Benefit Plan, any Social Security supplement paid by PECO Energy Company until Executive attains age 65, and any other sources), results in an aggregate annual retirement benefit equal to the annual retirement benefit that would have been payable under the PECO Energy Company Service Annuity provisions of the Exelon Corporation Retirement Program (including under the PECO Energy Company Supplemental Pension Benefit Plan) as in effect on March 10, 1998, calculated as though Executive had:

(i) attained age 65,

(ii) accrued 37 years of service and

(iii) received the lump-sum severance benefit specified in Section 3 in equal monthly installments during the period from the Employment Termination Date through the third anniversary of the Employment Termination Date.

(c) Executive shall receive the SERP Benefit as a lump-sum amount, payable on September 30, 2002. The Company represents and warrants that (i) the SERP Benefit payable as a lump-sum amount on September 30, 2002 equals \$18,094,232 and (ii) the SERP Benefit that would be payable as a lump-sum amount on September 30, 2002, calculated without making the assumptions set forth in Sections 7(b) (i), (ii) and (iii), equals \$14,052,910 (the excess of the amount in Section 7(c) (i) over the amount in Section 7(c) (ii) being the "Enhanced SERP Benefit").

8. Employee and Other Benefits.

(a) Until the third anniversary of the Employment Termination Date, (i) Executive (and his family) shall be eligible to participate in, and shall receive benefits under, the welfare benefit plans, practices, policies and programs provided by the Company or its subsidiaries (including without limitation, medical, prescription, dental, vision care, disability, salary continuance, employee life, group life, dependent life, accidental death and travel accident insurance plans and programs) generally available to senior executives of the Company as of the Employment Termination Date (all such welfare benefit plans, practices, policies and programs, collectively, the "Plans"), on the same basis as if Executive had remained as Chairman and Co-Chief Executive Officer and as a member of the Board of Directors of the Company until the end of such three-year period, and (ii) Executive shall be entitled to estate and financial planning services and tax preparation services on the same basis as if Executive had remained as Chairman and Co-Chief Executive Officer and a member of the Board of Directors of the Company until the end of such three-year period; provided, however, that the Company shall provide at no cost to Executive an amount of term life insurance coverage that, when added to the coverage available at no cost to Executive under the Company's group or employee life plans or programs, equals \$3,345,000 (representing three times the Executive's annual base salary); and provided further that, until December 31, 2003, participation in such welfare benefit plans and practices, policies and programs shall be on terms no less favorable than those available to John W. Rowe. In the event that some or all of such benefits cannot be made available by the Company to Executive during the period ending on the third anniversary of the Employment Termination Date, the Company shall pay to Executive an amount equal to the economic equivalent of such unavailable benefits. Following the Employment Termination Date, the Company shall continue to pay the lease payments, until the end of the term of the lease, required by the Company's lease of the Acura MDX automobile used by Executive, and Executive shall continue to have use of such automobile at his own expense (including, without limitation, the expense of operation, maintenance and insurance, but not including such lease payments) until the end of the term of the lease. At the end of such lease term, the Company shall assign to Executive the Company's right (to the extent such right is assignable) to purchase such automobile in accordance with the terms of such lease.

(b) On and after the third anniversary of the Employment Termination Date, Executive and his spouse shall each be entitled to Post-Retirement Health Care Coverage for the remainder of their respective lives. Such coverage shall not duplicate any benefits that may then be available to Executive and his spouse under Section 8(a) and shall be secondary to any coverage provided by any other employer or Medicare. For purposes of this Section 8(c), "Post-Retirement Health Care Coverage" means the medical, dental and vision care coverage provided by the Company from time to time to its retired senior executives who have retired at or after March 10, 1998.

(c) The Company shall pay to Executive, not more than 60 days after the Employment Termination Date, his balance in the Company's Deferred Compensation Plan. The Company represents and warrants that such balance was \$6,070,917.34 on March 31, 2002.

(d) If Executive is entitled to any benefit that is (i) vested or accrued on the Employment Termination Date under any employee benefit plan of the Company or any of its subsidiaries and (ii) not expressly referred to in this Agreement, such benefit shall be provided to Executive in accordance with

the terms of such employee benefit plan. The Company represents that the terms of this Agreement comply in all respects with the Company's obligations under Section 6.16 of the Amended and Restated Agreement and Plan of Exchange and Merger dated as of October 20, 2000 among PECO Energy Company, the Company and Unicom Corporation (the "Merger Agreement").

9. Restrictive Covenants.

(a) Confidentiality.

(i) Executive acknowledges that it is the policy of the Company and its Affiliates (as defined in Section 9(a)(iv)) to maintain as secret and confidential all Confidential Information (as defined in Section 9(a)(iv)), and that Confidential Information has been developed at substantial cost and effort to the Company and its Affiliates. Executive acknowledges that he has had access to Confidential Information with respect to the Company and its Affiliates, which information is a valuable and unique asset of the Company and its Affiliates, and that disclosure of such Confidential Information would cause irreparable damage to the business and operations of the Company and its Affiliates.

(ii) Executive acknowledges that the Confidential Information is, as between the Company and its Affiliates and Executive, the exclusive property of the Company and its Affiliates.

(iii) From the date hereof, Executive:

(1) shall not, directly or indirectly, divulge, furnish or make accessible to any Person (as defined in Section 9(a)(iv)) any Confidential Information (except as may be compelled by applicable law or administrative regulation; provided that Executive, to the extent not prohibited from doing so by applicable law or administrative regulation, shall give the Company written notice of the information to be so disclosed as far in advance of its disclosure as is practicable, shall cooperate with the Company in its efforts to protect the information from disclosure, and shall limit the disclosure of such information to the minimum disclosure required by law or administrative regulation unless the Company agrees in writing to a greater level of disclosure);

(2) shall not use for his own benefit in any manner, any Confidential Information;

(3) shall not cause any such Confidential Information to become publicly known; and

(4) shall take all reasonable steps to safeguard such Confidential Information and to protect it against disclosure, misuse, loss and theft.

(iv) For purposes of this Agreement:



"Affiliate" means, when used with reference to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the referent Person or such other Person, as the case may be. For the purposes of this definition, the term "control," when used with respect to any Person, means the power to direct or cause the direction of management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Confidential Information" means any information not generally known in the relevant trade or industry, which was obtained from the Company or any Company Affiliate, or which was learned, discovered, developed, conceived, originated or prepared during or as a result of the performance of any services by Executive on behalf of the Company or any Company Affiliate and which:

(1) relates to one or more of the following:

(A) trade secrets of the Company or an Affiliate thereof or any customer or supplier of the Company or an Affiliate thereof;

(B) existing or contemplated products, services, technology, designs, processes, formulae, algorithms, research or product developments of the Company or an Affiliate thereof or any customer or supplier of the Company or an Affiliate thereof;

(C) business plans, sales or marketing methods, methods of doing business, customer lists, customer usages and/or requirements, supplier information of the Company or an Affiliate thereof or any customer or supplier of the Company or an Affiliate thereof; or

(2) the Company or an Affiliate thereof or any customer or supplier of the Company or an Affiliate thereof may reasonably have the right to protect by patent, copyright or by keeping it secret and confidential.

Confidential Information does not include any information that is or may become publicly known other than through the improper actions of Executive. Confidential Information represents trade secrets subject to protection under the Uniform Trade Secrets Act, as adopted by the State of Illinois, or to any comparable protection afforded by applicable laws.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, entity or government (whether federal, state, county, municipal or otherwise).

(b) Noncompetition.

(i) During the period ending on the second anniversary of the Employment Termination Date, Executive shall not, directly or indirectly, in any capacity, engage or participate in, become employed

by, serve as a director of, or render advisory or consulting or other services in connection with, any Competitive Business (as defined in Section 9(b)(iii)), except that nothing in this Section 9(b) shall restrict the ability of Executive to serve as a director, member of a committee of the board of directors or non-executive chairman of the board of Enron Corporation ("Enron") or, if the Company provides Executive with its prior express written consent, which consent shall not be unreasonably withheld or delayed (the "Company Consent"), any entity that is spun off by Enron (an "Enron Spin-Off"), provided that (A) in so serving during such period, Executive shall recuse himself from the consideration of any matter relating to the Company, including, without limitation, the matters or transactions relating to a restructuring of Sithe Independence Power Partners, L.P. or otherwise relating to the Sithe Independence Power Project, and shall abide by Sections 9(a), 9(c) and 11, (B) this exception shall not apply to service by Executive to Enron or an Enron Spin-Off in any other capacity, including, without limitation, as an officer or executive chairman of the board, (C) if Executive becomes a director of Enron or non-executive chairman of the board of Enron or, with the Company Consent, an Enron Spin-Off, amounts equal, in the aggregate, to the amounts of all cash compensation earned by Executive for service to Enron or, with the Company Consent, an Enron Spin-Off in any such capacity during such portion, if any, of the two-year period commencing on the Employment Termination Date during which Executive serves in any such capacity, reduced by all applicable federal and state taxes and all unreimbursed expenses incurred by Executive in the performance of his duties in any such capacity, shall be paid by Executive to the Company promptly after such amounts of cash compensation are paid to Executive by Enron or the Enron Spin-Off, (D) if Executive becomes a director of Enron or non-executive chairman of the board of Enron or, with the Company Consent, an Enron Spin-Off, all non-cash compensation earned by Executive for service to Enron or, with the Company Consent, an Enron Spin-Off in any such capacity during such portion, if any, of the two-year period commencing on the Employment Termination Date during which Executive serves in any such capacity shall be donated by Executive to one or more tax-exempt charities or charitable foundations of his choice promptly after such non-cash compensation is paid to Executive by Enron or the Enron Spin-Off and (E) at least five business days prior to serving during such period as a director or non-executive chairman of Enron or, with the Company Consent, an Enron Spin-Off, Executive shall give written notice to the Company of his intention to do so, and the Company shall have the right to deliver to Enron or the Enron Spin-Off, as the case may be, a copy of this Section 9.

(ii) During the period ending on the second anniversary of the Employment Termination Date, Executive shall not at any time make any financial investment, whether in the form of equity or debt, or own any interest, directly or indirectly, in any Competitive Business. Nothing in this subsection shall, however, restrict Executive from making an investment in any Competitive Business if such investment does not (i) represent more than 1% of market value of the outstanding capital stock or debt (as applicable) of such Competitive Business and (ii) give Executive any right or ability, directly or indirectly, to control or influence the policy decisions of any Competitive Business.

(iii) For purposes of this Agreement, "Competitive Business" means as of any date any Person (and any branch, office or operation thereof) which engages in, or proposes to engage in (i) the production, transmission, distribution, marketing or sale of electricity or (ii) any other business engaged in by the Company or its Affiliates prior to the Employment Termination Date which represents for calendar year 2000 or 2001, or is projected by the Company (as reflected in a business plan adopted by the Company or any Affiliate thereof before the Employment Termination Date) to yield during any year during the first three-fiscal year period commencing on or after the Employment Termination Date, more than 5% of the gross revenues of the Company, and which is located (i) anywhere in the United States, or (ii) anywhere outside of the United States where the Company or any Affiliate thereof is then engaged in, or proposes to engage in, any of such activities.

(c) Non-Solicitation. (i) During the period ending on the second anniversary of the Employment Termination Date, Executive shall not, directly or indirectly:

(1) encourage any Key Employee (as defined in Section 9(c)(ii)) to terminate his or her employment;

(2) employ, engage as a consultant or adviser, or solicit the employment or engagement as a consultant or adviser of, any Key Employee (other than by the Company or its Affiliates), or cause any Person to do any of the foregoing;

(3) establish a business with, or encourage others to establish a business with, any Key Employee; or

(4) interfere with the relationship of the Company or any of its Affiliates with, or endeavor to entice away from, the Company or any of its Affiliates any Person who or which at any time during the period commencing one year prior to March 16, 1998 was a material customer or material supplier of, or maintained a material business relationship with, the Company, PECO Energy Company or any of their Affiliates.

(ii) For purposes of this Agreement, "Key Employee" means any employee of the Company who is Group Level 12 or above ("Group Level") or any employee of any Affiliate of the Company who is at a level which is the equivalent of Group Level.

(d) Reasonableness of Restrictive Covenants.

(i) Executive acknowledges that the covenants contained in Sections 9(a), 9(b) and 9(c) are reasonable in the scope of the activities restricted, the geographic area covered by the restrictions, and the duration of the restrictions, and that such covenants are reasonably necessary to protect the Company's legitimate interests in its Confidential Information and in its relationships with employees, customers and suppliers. Executive further acknowledges such covenants are essential elements of this Agreement and that, but for such covenants, the Company would not have entered into this Agreement.

(ii) The Company and Executive have each consulted with their respective legal counsel and have been advised concerning the reasonableness and propriety of such covenants. Executive acknowledges that his observance of the covenants contained in Sections 9(a), 9(b) and 9(c) will not deprive him of the ability to earn a livelihood or to support his dependents.

(e) Right to Injunction; Survival of Undertakings.

(i) In recognition of the confidential nature of the Confidential Information, in recognition of the necessity of the limited restrictions imposed by Sections 9(a), 9(b) and 9(c) and in recognition of the nature of the restriction imposed by Section 11, the parties agree that it would be impossible to measure solely in money the damages which the Company would suffer if Executive were to breach any of his obligations under such Sections. Executive acknowledges that any breach of any provision of such Sections would irreparably injure the Company. Accordingly, Executive agrees that if he breaches any of the provisions of such Sections, the Company shall be entitled, in addition to any other remedies to which the Company may be entitled under this Agreement or otherwise, to an injunction to be issued by a court of competent jurisdiction, to restrain any breach, or threatened breach, of such provisions, and Executive hereby waives any right to assert any claim or defense that the Company has an adequate remedy at law for any such breach.

(ii) If a court determines that any of the covenants included in this Section 9 is unenforceable in whole or in part because of such covenant's duration or geographical or other scope, such court shall have the power to reduce the duration or scope of such provision, as the case may be, so as to cause such covenant to be thereafter enforceable.

(f) Breach of Covenants; Exculpation. In the event of (1) a willful and material breach by Executive of any of the covenants contained in Section 9(a), 9(b) or 9(c) or any breach by Executive of the covenant contained in Section 11, or (2) a failure by Executive to cure (to the fullest extent curable) a non-willful breach of any of such covenants within 10 days after his receipt of a written notice thereof from the Company, the Company shall be entitled, after obtaining a final judicial determination (or, if the Company reasonably determines, based upon the advice of counsel, that it is more likely than not that each of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois will decline to adjudicate the issue, a final decree in an arbitration proceeding conducted in accordance with the rules of the American Arbitration Association, with such arbitration proceeding to be conducted in Chicago, Illinois before a panel of three arbitrators) to the effect that such action by the Company is appropriate and consistent with the requirements and procedures set forth in this Agreement, to take any or all of the following actions:

(i) discontinue the Enhanced SERP Benefit set forth in Section 7,

(ii) terminate any options to purchase common stock of the Company then held by Executive, and

(iii) require Executive to:

(1) repay to the Company all amounts previously received by Executive pursuant to the Enhanced SERP Benefit at any time on or after the Employment Termination Date, and

(2) pay to the Company an amount equal to the aggregate "spread" on all options to purchase common stock of the Company exercised on or after the first date on which the Executive breached any of the covenants contained in Section 9(a), 9(b), 9(c) or 11 (the "Breach Date");

provided, however, that no benefits shall be discontinued or terminated nor shall Executive have any monetary liability to the Company for any breach of the covenants contained in Section 9(a), 9(b) or 9(c) for any act or failure to act, including without limitation simple negligence or an error in judgment, if such act or failure to act was done in good faith, with a reasonable belief that the act, or failure to act, was in the best interest of the Company or was required by applicable law or administrative regulations, and was not done primarily to benefit Executive; and provided further that no action may be brought under this Section 9(f) after the third anniversary of the Employment Termination Date in the event of a willful and material breach by Executive, or a failure by Executive to cure (to the fullest extent curable) a non-willful breach, of any of the covenants contained in Section 9(a), 9(b) or 9(c) or after the sixth anniversary of the Employment Termination Date in the event of any breach by Executive of the covenant contained in Section 11. For purposes of clause (iii)(2) of the preceding sentence, "spread" in respect of any option to purchase common stock of the Company shall mean the product of the number of shares of common stock of the Company as to which such option has been exercised on or after the Breach Date multiplied by the difference between the closing price of the Company's common stock on the exercise date (or if such common stock did not trade on the New York Stock Exchange on the exercise date, the most recent date on which such common stock did so trade) and the exercise price of the option.

10. Nondisparagement. During the two-year period commencing on the Employment Termination Date, Executive shall not (a) make any written or oral statement that brings the Company or any of its Affiliates or the employees, officers or agents of the Company or any of its Affiliates into disrepute, or tarnishes any of their images or reputations or (b) publish, comment upon or disseminate any statements suggesting or accusing the Company or any of its Affiliates or any agents, employees or officers of the Company or any of its Affiliates of any misconduct or unlawful behavior. This Section shall not be deemed to be breached by testimony of Executive given in any judicial or governmental proceeding which Executive reasonably believes to be truthful at the time given or by any other action of Executive which he reasonably believes is taken in accordance with the requirements of applicable law or administrative regulation.

11. Standstill. Executive hereby agrees that, unless specifically requested in writing in advance by the Company's Chief Executive Officer or Board of Directors, Executive will not at any time during the period ending on the fifth anniversary of the Employment Termination Date (and Executive will not at any time during such period assist or encourage others to)

participate, directly or indirectly, in any activity that Executive knows or reasonably should anticipate, if consummated, would result in a Change in Control. For purposes of this Section 11, a "Change in Control" shall have the meaning set forth in Section 13(a)(iii). Nothing contained in this Section 11 shall in any manner restrict Executive from voting or disposing of any shares of common stock of the Company beneficially owned by him, and no such vote or disposition shall constitute a breach of this Section 11.

12. Other Employment; Other Plans. Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any provision of this Agreement. The amounts payable hereunder shall not be reduced by any payments received by Executive from any other employer; provided, however, that any continued welfare benefits provided for by Section 8(a) shall not duplicate any benefits that are provided to Executive and his family by such other employer on terms at least as favorable to Executive as the terms under which such welfare benefits are provided by the Company and shall be secondary to any such coverage provided by such other employer. The provisions of this Section 12 will not limit the entitlement of Executive to any other benefits available to Executive under any benefit plan or practice, policy or program that is maintained by the Company or any Company Affiliate in which Executive participates.

13. Certain Taxes.

(a) Gross-Up for Certain Taxes.

(i) If it is determined by the Company's independent auditors that any monetary or other benefit received or deemed received by Executive from the Company or any Affiliate thereof pursuant to this Agreement or otherwise, whether or not in connection with a Change in Control (such monetary or other benefits collectively, the "Potential Parachute Payments"), is or will become subject to any excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any similar tax under any United States federal, state, local or other law (such excise tax and all such similar taxes collectively, "Excise Taxes"), then the Company shall, subject to Sections 13(f) and 13(g), within five business days after such determination, pay Executive an amount (the "Gross-Up Payment") equal to the product of:

(1) the amount of such Excise Taxes multiplied by

(2) the Gross-Up Multiple (as defined in Section 13(d)).

The Gross-Up Payment is intended to compensate Executive for all Excise Taxes payable by Executive with respect to Potential Parachute Payments and all federal, state, local or other income, employment or other taxes ("Taxes") or Excise Taxes payable by Executive with respect to the Gross-Up Payment.

(ii) The determination of the Company's independent auditors described in Section 13(a)(i), including the detailed calculations of the amounts of the Potential Parachute Payments, Excise Taxes and Gross-Up Payment and the assumptions relating thereto, shall be set forth in a written certificate of such auditors (the "Company

Certificate") delivered to Executive. Executive or the Company may at any time request the preparation and delivery to Executive of a Company Certificate. The Company shall cause the Company Certificate to be delivered to Executive as soon as reasonably possible after such request.

(iii) For purposes of this Section 13, the term "Change in Control" means any one or more of the following to occur after the date of this Agreement:

(1) the acquisition by any Person (including for purposes of this definition any "person" within the meaning of Section 13(d) (3) or 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Common Stock") or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of the directors of the Company (the "Outstanding Voting Securities"), but excluding (A) any acquisition directly from the Company (excluding any acquisition resulting from the exercise of an exercise, conversion or exchange privilege unless the security being so exercised, converted or exchanged was acquired directly from the Company), (B) any acquisition by the Company, (C) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company (a "Company Plan") or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (3) of this definition; provided further, that for purposes of clause (B), if any Person (other than the Company or any Company Plan) shall become the beneficial owner of 20% or more of the Outstanding Common Stock or 20% or more of the Outstanding Voting Securities by reason of an acquisition by the Company, and such Person shall, after such acquisition by the Company, become the beneficial owner of any additional shares of the Outstanding Common Stock or any additional Outstanding Voting Securities (other than pursuant to any dividend reinvestment plan or arrangement maintained by the Company) and such beneficial ownership is publicly announced, such additional beneficial ownership shall constitute a Change in Control;

(2) individuals who, as of the date of this Agreement, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Incumbent Board; provided that any individual who becomes a director of the Company subsequent to the date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by the vote of at least a majority of the directors then comprising the Incumbent Board shall be deemed a member of the Incumbent Board; and provided further, that any individual who was initially elected as a director of the Company as a result of an actual or threatened solicitation by a Person other than the Board of Directors of the Company for the purpose of opposing a solicitation by any other Person with respect to the election or removal of directors, or any other actual or

threatened solicitation of proxies or consents by or on behalf of any Person other than the Board of Directors of the Company shall not be deemed a member of the Incumbent Board;

(3) consummation of a reorganization, merger or consolidation or sale or other disposition of more than 50% of the operating assets of the Company (determined on a consolidated basis) other than in connection with a sale-leaseback or other arrangement resulting in the continued utilization of such assets (or the operating products of such assets) by the Company (such reorganization, merger, consolidation, sale or other disposition, a "Corporate Transaction"); excluding, however, a Corporate Transaction pursuant to which:

(A) all or substantially all of the individuals or entities who are the beneficial owners, respectively, of the Outstanding Common Stock and the Outstanding Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the outstanding securities of such corporation entitled to vote generally in the election of the directors of such corporation ("Voting Securities"), as the case may be, of the corporation resulting from such Corporate Transaction (including a corporation which as a result of such transaction owns the Company or all or substantially all of its assets either directly or indirectly) in substantially the same proportions relative to each other as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Common Stock and the Outstanding Voting Securities, as the case may be;

(B) no Person (other than the Company; any Company Plan; the corporation resulting from such Corporate Transaction; and any Person which beneficially owned, immediately prior to such Corporate Transaction, directly or indirectly, 20% or more of the Outstanding Common Stock or the Outstanding Voting Securities, as the case may be) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding Voting Securities of such corporation; and

(C) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(4) approval by the stockholders of the Company of a plan of complete liquidation or dissolution of the Company, other than a plan of liquidation or dissolution which results in the acquisition of all or substantially all the assets of the Company by its Affiliates.



(b) Determination by Executive.

(i) If (1) the Company shall fail to deliver a Company Certificate to Executive within 30 days after its receipt of his written request therefor, or (2) at any time after Executive's receipt of a Company Certificate, Executive disputes either (x) the amount of the Gross-Up Payment set forth therein or (y) the determination set forth therein to the effect that no Gross-Up Payment is due (whether by reason of Section 13(g) or otherwise), then Executive may elect to require the Company to pay a Gross-Up Payment in the amount determined by Executive as set forth in an Executive Counsel Opinion (as defined in Section 13(e)). Any such demand by Executive shall be made by delivery to the Company of a written notice which specifies the Gross-Up Payment determined by Executive (together with the detailed calculations of the amounts of Potential Parachute Payments, Excise Taxes and Gross-Up Payment and the assumptions relating thereto) and an Executive Counsel Opinion regarding such Gross-Up Payment (such written notice and opinion collectively, the "Executive's Determination"). Within 30 days after delivery of an Executive's Determination to the Company, the Company shall either (1) pay Executive the Gross-Up Payment set forth in the Executive's Determination (less the portion thereof, if any, previously paid to Executive by the Company) or (2) deliver to Executive a Company Certificate and a Company Counsel Opinion (as defined in Section 13(e)), and pay Executive the Gross-Up Payment specified in such Company Certificate. If for any reason the Company fails to comply with the preceding sentence, the Gross-Up Payment specified in the Executive's Determination shall be controlling for all purposes.

(ii) If Executive does not request a Company Certificate, and the Company does not deliver a Company Certificate to Executive, then (1) the Company shall, for purposes of Section 13(g), be deemed to have determined that no Gross-Up Payment is due and (2) Executive shall not pay any Excise Taxes in respect of Potential Parachute Payments except in accordance with Sections 13(f) (i) or 13(f) (iv).

(c) Additional Gross-Up Amounts. If for any reason (whether pursuant to subsequently enacted provisions of the Code, final regulations or published rulings of the Internal Revenue Service ("IRS"), a final judgment of a court of competent jurisdiction, a determination of the Company's independent auditors set forth in a Company Certificate or, subject to the last two sentences of Section 13(b) (i), an Executive's Determination) it is later determined that the amount of Excise Taxes payable by Executive is greater than the amount determined by the Company or Executive pursuant to Section 13(a) or 13(b), as applicable, then the Company shall, subject to Sections 13(f) and 13(g), pay Executive an amount (which shall also be deemed a Gross-Up Payment) equal to the product of:

(i) the sum of (1) such additional Excise Taxes and (2) any interest, penalties, expenses or other costs incurred by Executive as a result of having taken a position in accordance with a determination made pursuant to Section 13(a) or 13(b), as applicable, multiplied by

(ii) the Gross-Up Multiple.

(d) Gross-Up Multiple. The Gross-Up Multiple shall equal a fraction, the numerator of which is one (1.0), and the denominator of which is one (1.0) minus the lesser of (i) the sum, expressed as a decimal fraction, of the effective after-tax marginal rates of all Taxes and any Excise Taxes applicable to the Gross-Up Payment or (ii) 0.80, it being intended that the Gross-Up Multiple shall in no event exceed five (5.0). (If different rates of tax are applicable to various portions of a Gross-Up Payment, the weighted average of such rates shall be used.)

(e) Opinion of Counsel.

(i) "Executive Counsel Opinion" means an opinion of nationally-recognized executive compensation counsel to the effect (1) that the amount of the Gross-Up Payment determined by Executive pursuant to Section 13(b) is the amount that a court of competent jurisdiction, based on a final judgment not subject to further appeal, is most likely to decide to have been calculated in accordance with this Section 13 and applicable law and (2) if the Company has previously delivered a Company Certificate to Executive, that there is no reasonable basis or no substantial authority for the calculation of the Gross-Up Payment set forth in the Company Certificate.

(ii) "Company Counsel Opinion" means an opinion of nationally-recognized executive compensation counsel to the effect that (1) the amount of the Gross-Up Payment set forth in the Company Certificate is the amount that a court of competent jurisdiction, based on a final judgment not subject to further appeal, is most likely to decide to have been calculated in accordance with this Section 13 and applicable law and (ii) for purposes of Section 6662 of the Code, Executive has substantial authority to report on his federal income tax return the amount of Excise Taxes set forth in the Company Certificate.

(f) Amount Increased or Contested.

(i) Executive shall notify the Company in writing (an "Executive's Notice") of any claim by the IRS or other taxing authority (an "IRS Claim") that, if successful, would require the payment by Executive of Excise Taxes in respect of Potential Parachute Payments in an amount in excess of the amount of such Excise Taxes determined in accordance with Section 13(a) or 13(b), as applicable. Such Executive's Notice shall include the nature and amount of such IRS Claim, the date on which such IRS Claim is due to be paid (the "IRS Claim Deadline"), and a copy of all notices and other documents or correspondence received by Executive in respect of such IRS Claim. Executive shall give his Executive's Notice as soon as practicable, but no later than the earlier of (i) 10 business days after Executive first obtains actual knowledge of such IRS Claim or (ii) five business days before the IRS Claim Deadline; provided, however, that Executive's failure to give such notice shall affect the Company's obligations under this Section 13 only to the extent that the Company is actually prejudiced by such failure. If at least one business day before the IRS Claim Deadline the Company shall:

(1) deliver to Executive a Company Certificate to the effect that the IRS Claim has been reviewed by the Company's independent auditors and, notwithstanding the IRS Claim, the

amount of Excise Taxes, interest and penalties payable by Executive is either zero or an amount less than the amount specified in the IRS Claim,

(2) pay to Executive an amount (which shall also be deemed a Gross-Up Payment) equal to the positive difference between (x) the product of the amount of Excise Taxes, interest and penalties specified in the Company Certificate, if any, multiplied by the Gross-Up Multiple, and (y) the portion of such product, if any, previously paid to Executive by the Company, and

(3) direct Executive pursuant to Section 13(f) (iv) to contest the balance of the IRS Claim,

then Executive shall pay only the amount, if any, of Excise Taxes, interest and penalties specified in the Company Certificate. In no event shall Executive pay an IRS Claim earlier than 30 days after having given an Executive's Notice to the Company (or, if sooner, the IRS Claim Deadline).

(ii) At any time after the payment by Executive of any amount of Excise Taxes or related interest or penalties in respect of Potential Parachute Payments (whether or not such amount was based upon a Company Certificate, an Executive's Determination or an IRS Claim), the Company may in its discretion require Executive to pursue a claim for a refund (a "Refund Claim") of all or any portion of such Excise Taxes, interest or penalties as the Company may specify by written notice to Executive.

(iii) If the Company notifies Executive in writing that the Company desires Executive to contest an IRS Claim or to pursue a Refund Claim, Executive shall:

(1) give the Company all information that it reasonably requests in writing from time to time relating to such IRS Claim or Refund Claim, as applicable,

(2) take such action in connection with such IRS Claim or Refund Claim (as applicable) as the Company reasonably requests in writing from time to time, including accepting legal representation with respect thereto by an attorney selected by the Company, subject to the approval of Executive (which approval shall not be unreasonably withheld or delayed),

(3) cooperate with the Company in good faith to contest such IRS claim or pursue such Refund Claim, as applicable,

(4) permit the Company to participate in any proceedings relating to such IRS Claim or Refund Claim, as applicable, and

(5) contest such IRS Claim or prosecute such Refund Claim (as applicable) to a determination before any administrative tribunal, in court of initial jurisdiction and in one or more

appellate courts, as the Company may from time to time determine in its discretion.

The Company shall control all proceedings in connection with such IRS Claim or Refund Claim (as applicable) and in its discretion may cause Executive to pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the IRS or other taxing authority in respect of such IRS Claim or Refund Claim (as applicable); provided that (i) any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive relating to the IRS Claim is limited solely to such IRS Claim, (ii) the Company's control of the IRS Claim or Refund Claim (as applicable) shall be limited to issues with respect to which a Gross-Up Payment would be payable, and (iii) Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the IRS or other taxing authority.

(iv) The Company may at any time in its discretion direct Executive to (1) contest the IRS Claim in any lawful manner or (2) pay the amount specified in an IRS Claim and pursue a Refund Claim; provided, however, that if the Company directs Executive to pay an IRS Claim and pursue a Refund Claim, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify Executive, on an after-tax basis, for any Taxes, Excise Taxes, and any related interest or penalties imposed with respect to such advance.

(v) The Company shall pay directly all legal, accounting and other costs and expenses (including additional interest and penalties) incurred by the Company or Executive in connection with any IRS Claim or Refund Claim, as applicable, and shall indemnify Executive, on an after-tax basis, for any Taxes, Excise Taxes and related interest and penalties imposed on Executive as a result of such payment of costs and expenses.

(g) Limitation on Gross-Up Payments.

(i) Notwithstanding any other provision of this Section 13, if the aggregate After-Tax Amount (as defined below) of the Potential Parachute Payments and Gross-Up Payment that, but for this Section 13(g), would be payable to Executive, does not exceed 110% of the After-Tax Floor Amount (as defined below), then no Gross-Up Payment shall be made to Executive and the aggregate amount of Potential Parachute Payments payable to Executive shall be reduced (but not below the Floor Amount) to the largest amount which would both (i) not cause any Excise Taxes to be payable by Executive and (ii) not cause any Potential Parachute Payments to become nondeductible by the Company by reason of Section 280G of the Code (or any successor provision). For purposes of the preceding sentence, Executive shall be deemed to be subject to the highest effective after-tax marginal rate of Taxes.

(ii) For purposes of this Section:

"After-Tax Amount" means the portion of a specified amount that would remain after payment of all Taxes and Excise Taxes paid or payable by Executive in respect of such specified amount;

"Floor Amount" means the greatest pre-tax amount of Potential Parachute Payments that could be paid to Executive without causing him to become liable for any Excise Taxes in connection therewith; and

"After-Tax Floor Amount" means the After-Tax Amount of the Floor Amount.

(h) Refunds. If, after the receipt by Executive of any payment or advance of Excise Taxes by the Company pursuant to this Section 13, Executive receives any refund with respect to such Excise Taxes, Executive shall (subject to the Company's complying with any applicable requirements of Section 13(f)) promptly pay the Company the amount of such refund (together with any interest paid or credited thereon after Taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(f), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such determination within 30 days after the Company receives written notice of such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid. Any contest of a denial of refund shall be controlled by Section 13(f).

14. Consent to Jurisdiction. Executive agrees to submit himself, and the Company agrees to submit itself, to the jurisdiction of the courts of the State of Illinois in any action by the other to enforce an arbitration award or to obtain injunctive or other relief.

15. Releases.

(a) Releases by Executive.

(i) Executive, on behalf of himself and anyone claiming through him, hereby agrees not to sue the Company or any of its divisions, subsidiaries, or other affiliated entities (whether or not such entities are wholly owned), or the predecessors, successors or assigns of any of them (hereinafter referred to as the "Company Entity Released Parties"), and agrees to release and discharge, fully, finally and forever, the Company Entity Released Parties from any and all claims, causes of action, lawsuits, liabilities, debts, accounts, covenants, contracts, controversies, agreements, promises, sums of money, damages, judgments and demands of any nature whatsoever, in law or in equity, both known and unknown, asserted or not asserted, foreseen or unforeseen, which Executive ever had or may presently have against any of the Company Entity Released Parties arising from the beginning of time up to and including the effective date of this Agreement, including, without limitation, all matters in any way related to Executive's employment by the Company or his service as an officer or director of the Company, the terms and conditions thereof, any failure to promote Executive or the termination or cessation of Executive's employment with the Company or his service as an officer or director of the Company, and including, without limitation, any and all

claims arising under the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Civil Rights Act of 1866, the Age Discrimination in Employment Act, the Older Workers' Benefit Protection Act, the Family and Medical Leave Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act of 1974, the Illinois Human Rights Act, the Chicago or Cook County Human Rights Ordinance, the Pennsylvania Human Relations Act, the Philadelphia Fair Practices Ordinance or any other federal, state, local or foreign statute, regulation, ordinance or order, or pursuant to any common law doctrine; provided, however, that nothing contained in this Section 15(a)(i) shall apply to, or release the Company or any of the other Company Entity Released Parties from, (A) any obligation of the Company or any of the other Company Entity Released Parties contained in this Agreement or the stock option agreements or restricted stock agreements between the Company or any of the other Company Entity Released Parties and Executive or (B) any vested or accrued benefit pursuant to any employee benefit plan of the Company or any of the other Company Entity Released Parties (such obligations and benefits collectively, the "Unreleased Claims"). Executive agrees that he has no present or future right to employment with the Company or any of the other Company Entity Released Parties and that he will not apply for or otherwise seek employment with any of them.

(ii) Executive, on behalf of himself and anyone claiming through him, hereby agrees not to sue any of the past, present or future directors, officers, administrators, trustees, fiduciaries, employees, agents, attorneys or shareholders of any of the Company Entity Released Parties (hereinafter referred to as the "Company Individual Released Parties"; the Company Entity Released Parties and the Company Individual Released Parties are sometimes collectively referred to as the "Company Released Parties" ) with respect to Executive's employment by the Company or his service as an officer or director of the Company, the terms and conditions thereof, any failure to promote Executive or the termination or cessation of Executive's employment with the Company or his service as an officer or director of the Company, and agrees to release and discharge, fully, finally and forever, the Company Individual Released Parties from any and all claims, causes of action, lawsuits, liabilities, debts, accounts, covenants, contracts, controversies, agreements, promises, sums of money, damages, judgments and demands of any nature whatsoever, in law or in equity, both known and unknown, asserted or not asserted, foreseen or unforeseen, which Executive ever had or may presently have against any of the Company Individual Released Parties arising from the beginning of time up to and including the effective date of this Agreement, but only to the extent such claims, causes of action, lawsuits, liabilities, debts, accounts, covenants, contracts, controversies, agreements, promises, sums of money, damages, judgments and demands are related to Executive's employment by the Company or his service as an officer or director of the Company, the terms and conditions thereof, any failure to promote Executive or the termination or cessation of Executive's employment with the Company or his service as an officer or director of the Company, including, without limitation, claims relating thereto arising under the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Civil Rights Act of 1866, the Age Discrimination in Employment Act, the Older Workers' Benefit Protection Act, the Family and Medical Leave Act, the Americans

With Disabilities Act, the Employee Retirement Income Security Act of 1974, the Illinois Human Rights Act, the Chicago or Cook County Human Rights Ordinance, the Pennsylvania Human Relations Act or the Philadelphia Fair Practices Ordinance; provided, however, that nothing contained in this Section 15(a)(ii) shall apply to, or release the Company Individual Released Parties from, any of the Unreleased Claims.

(iii) The consideration offered herein is accepted by Executive as being in full accord, satisfaction, compromise and settlement of any and all claims or potential claims of Executive released herein (the "Released Claims"), and Executive expressly agrees that he is not entitled to, and shall not receive, any further recovery of any kind from the Company or any of the other Company Released Parties with respect to the Released Claims, and that in the event of any further proceedings whatsoever based upon any of the Released Claims, neither the Company nor any of the other Company Released Parties shall have any further monetary or other obligation of any kind to Executive, including any obligation for any costs, expenses or attorneys' fees incurred by or on behalf of Executive, except as set forth in Sections 17 and 31.

(b) Release by Company. The Company, the Company's divisions, subsidiaries, and other affiliated entities (whether or not such entities are wholly owned), and the predecessors, successors and assigns of any of them, on behalf of themselves and anyone claiming through them (the "Company Releasing Parties"), hereby agree not to sue the Executive, his spouse, personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees or legatees, or the Beneficiary (as hereinafter defined) (hereinafter referred to as the "Executive Released Parties") based upon facts that are known on the date of this Agreement by any director or executive officer (as defined in Rule 3b-7 under the Exchange Act) of the Company as of the date of this Agreement ("Known Facts"), and agree to release and discharge, fully, finally and forever, the Executive Released Parties from any and all claims, causes of action, lawsuits, liabilities, debts, accounts, covenants, contracts, controversies, agreements, promises, sums of money, damages, judgments and demands of any nature whatsoever, in law or in equity, both known and unknown, asserted or not asserted, foreseen or unforeseen, which the Company Releasing Parties ever had or may presently have against any of the Executive Released Parties arising from the beginning of time up to and including the effective date of this Agreement, including, without limitation, all matters in any way related to Executive's employment by the Company or his service as an officer or director of the Company or the terms and conditions thereof, but only to the extent such claims, causes of action, lawsuits, liabilities, debts, accounts, covenants, contracts, controversies, agreements, promises, sums of money, damages, judgments and demands are based upon Known Facts; provided, however, that nothing contained in this Section 15(b) shall apply to, or release the Executive Released Parties from, any obligation of Executive contained in this Agreement.

#### 16. Authority.

(a) Executive expressly represents and warrants that (i) he is the sole owner of the actual and alleged claims, demands, rights, causes of action and other matters that are released by him herein; that the same have not been transferred or assigned or caused to be transferred or assigned to any other person, firm, corporation or other legal entity; (ii) he has the full

right and power to grant, execute and deliver this Agreement; (iii) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound; (iv) Executive is not a party to or bound by any agreement with any other person or entity that would interfere with the execution, delivery or performance of this Agreement by Executive; and (v) assuming the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable against the Executive in accordance with its terms, except to the extent its enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting or relating to the enforcement of creditors' rights generally and by the effect of general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

(b) The Company expressly represents and warrants that:

(i) the Company Releasing Parties are the sole owners of the actual and alleged claims, demands, rights, causes of action and other matters that are released by them herein; and that the same have not been transferred or assigned or caused to be transferred or assigned to any other person, firm, corporation or other legal entity;

(ii) the Company has all necessary corporate power and authority to execute and deliver this Agreement and all other documents, instruments and other writings to be executed and/or delivered by or on behalf of the Company to Executive or any of his representatives in connection with the transactions contemplated hereby or thereby (collectively, the "Company Transaction Documents"), to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of each of the Company Transaction Documents by the Company, and the consummation by the Company of the transactions contemplated hereby and thereby, have been duly and validly authorized by the Board of Directors of the Company, and no other corporate proceedings on the part of the Company are necessary to authorize the execution, delivery and performance of the Company Transaction Documents or the consummation of the transactions contemplated hereby and thereby. Each of the Company Transaction Documents has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery hereof and thereof by Executive, each constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except to the extent their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting or relating to the enforcement of creditors' rights generally and by the effect of general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law); and

(iii) the execution, delivery and performance of the Company Transaction Documents by the Company do not and will not: (A) conflict with or violate the Company's Amended and Restated Articles of Incorporation or Bylaws; (B) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to the Company or by which its properties are bound or affected; (C) require any consent,



approval, authorization or permit of, action by, filing with or notification to, any governmental entity (other than any filing required under the Exchange Act); (D) require the approval of the Company's stockholders, or (E) result in any breach or violation of or constitute a default (or an event which with notice or lapse of time or both could become a default) or result in the loss by the Company of a material benefit under, or give rise to any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien on any of the properties or assets of the Company pursuant to, any contract, permit or other instrument or obligation to which the Company is a party or by which the Company or its properties are bound or affected; other than (x) in the case of clauses (B) and (E), for such conflicts, violations, breaches, defaults, rights, losses and liens as would not have a material adverse effect on the Company or its ability to perform its obligations under the Company Transaction Documents and (y) in the case of clause (C), such consents, approvals, authorizations, permits, actions, filings and notifications, the absence of which would not have a material adverse effect on the Company or its ability to perform its obligations under the Company Transaction Documents.

17. Indemnification of Executive.

(a) The Company agrees that (i) the limitation of liability now existing in favor of Executive contained in Section 505 of the Company's Amended and Restated Articles of Incorporation and all rights to indemnification now existing in favor of Executive contained in Article VII of the Company's Bylaws, in each case as in effect on the date hereof, and (ii) any other limitation of liability or right to indemnification with respect to the Company or its Affiliates in effect on the date hereof, shall not be amended in any manner that would adversely affect the rights of Executive, unless such amendment is required by law.

(b) Pursuant to the rights to indemnification referred to in Section 17(a) hereof, the Company agrees to indemnify and hold harmless Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees to the fullest extent permitted by the laws of the Commonwealth of Pennsylvania with respect to any claim arising at any time out of any event, action or omission related to or in connection with Executive having been a director, officer or employee of the Company or having served as a director, officer, manager or member (or in any other capacity) of another corporation or other organization at the request of the Company. This indemnification shall continue in full force and effect for a period of not less than the duration of all statutes of limitations applicable to such matters (or in the case of events, actions or omissions giving rise to matters which have not been resolved prior to the expiration of such period, until such matters are finally resolved). Without limiting the foregoing, the Company shall periodically advance all reasonable expenses (including reasonable attorneys' and paralegals' fees and other costs and expenses) as incurred with respect to the foregoing to the fullest extent permitted by the laws of the Commonwealth of Pennsylvania. Executive shall not unreasonably withhold his consent to the settlement of any claim for which he is entitled to be fully indemnified hereunder. To the extent that the Company shall maintain in effect a policy of directors' and officers' liability insurance, Executive shall be covered by such policy for his actions or omissions as a director or officer in accordance with the terms of such policy to the maximum extent of coverage

provided for any other director or officer of the Company, subject to policy exceptions applicable to directors and officers generally.

18. Arbitration. Except as provided in Section 9, any dispute or controversy between the Company and Executive, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration in the State of Illinois, administered by the American Arbitration Association, with any such dispute or controversy arising under this Agreement being so administered in accordance with its Commercial Rules then in effect, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. However, either party may, without inconsistency with this arbitration provision, apply to any court having jurisdiction over such dispute or controversy and seek interim provisional, injunctive or other equitable relief until the arbitration award is rendered or the controversy is otherwise resolved. Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of the Company and Executive. The Company and Executive acknowledge that this Agreement evidences a transaction involving interstate commerce. Notwithstanding any choice of law provision included in this Agreement, the United States Federal Arbitration Act shall govern the interpretation and enforcement of this arbitration provision.

19. Successors; Binding Agreement. This Agreement shall inure to the benefit of and be enforceable by the Company and its successors and by Executive, his spouse, personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees, and the Beneficiary. Upon the consummation of any Change in Control, the Company shall obtain from each Person that becomes a successor of the Company by reason of the Change in Control the unconditional written agreement of such Person to assume this Agreement and to perform all of the obligations of the Company hereunder.

20. Notices. All notices and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given by a party hereto when delivered personally or by a nationally-recognized courier service that guarantees overnight delivery to the following address of the other party hereto (or to such other address of such other party as shall be furnished in accordance herewith):

If to the Company, to:

Exelon Corporation  
10 South Dearborn Street - 37th Floor  
Chicago, Illinois 60603  
Attention: Senior Vice President and Chief  
Administrative Officer

with copies to:

Exelon Corporation  
10 South Dearborn Street - 37th Floor  
Chicago, Illinois 60603  
Attention: Executive Vice President and  
General Counsel

and

Michael S. Sigal, Esq.  
Sidley Austin Brown & Wood  
Bank One Plaza  
10 South Dearborn Street  
Chicago, Illinois 60603

If to Executive, to:

Corbin A. McNeill, Jr.  
Box 8 Skyline Ranch  
525 NW Ridge Road  
Jackson, Wyoming 83001

with a copy to:

Robert J. Hasday, Esq.  
Duane Morris LLP  
380 Lexington Avenue  
New York, New York 10168

21. Governing Law; Validity. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois without regard to the principle of conflicts of laws, except that the interpretation, construction and performance of Section 17 of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Pennsylvania without regard to the principle of conflicts of laws.

22. Entire Agreement. This Agreement, the Unreleased Claims, and the agreements referenced herein, constitute the entire agreement and understanding between the parties with respect to the subject matter hereof and supersede and preempt any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof, including, but not limited to, except to the extent necessary to preserve the representation set forth in Section 8(d), the Merger Agreement.

23. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

24. Miscellaneous. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and executed by Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right which Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

25. No Admission. Nothing in this Agreement is intended to, or shall be construed as, an admission by the Company or any of the other Company Released Parties or by Executive or any of the other Executive Released Parties that it, he or she violated any law, interfered with any right, breached any obligation or otherwise engaged in any improper or illegal conduct. The Company, for itself and the other Company Released Parties, hereby expressly denies any such illegal or wrongful conduct. Executive, for himself and the other Executive Released Parties, hereby expressly denies any such illegal or wrongful conduct.

26. Payments. All payments required to be made by the Company pursuant to Sections 2, 3, 5, 7, 8, and 31 shall be made by the Company by electronic wire transfer of immediately available funds in accordance with the following instructions:

Bank Name:  
Attn:  
ABA#:  
F/F/C:  
F/F/C:  
Account #:

27. Beneficiary. If Executive dies prior to receiving all of the amounts payable hereunder, such amounts shall be paid, except as may be otherwise expressly provided herein or in the applicable plans, in a lump-sum payment to the beneficiary ("Beneficiary") designated by Executive in writing to the Company during his lifetime, which Executive may change from time to time by new designation filed in like manner without the consent of any Beneficiary; or if no such Beneficiary is designated, to his estate.

28. Nonalienation of Benefits. Benefits payable under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, prior to actually being received by Executive, and any such attempt to dispose of any right to benefits payable hereunder shall be void.

29. Severability. If all or any part of this Agreement is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of this Agreement not declared to be unlawful or invalid. Any paragraph or part of a paragraph so declared to be unlawful or invalid shall, if possible, be construed

in a manner which will give effect to the terms of such paragraph or part of a paragraph to the fullest extent possible while remaining lawful and valid.

30. Communications. Nothing in this Agreement, including, but not limited to, Sections 9(a) and 10, shall be construed to prohibit Executive from communicating with, including testifying in any administrative proceeding before, the Nuclear Regulatory Commission or the United States Department of Labor, 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, and no such communication or action shall constitute a breach of Section 9(a) or 10 or any other provision of this Agreement; provided, however, that if Executive is entitled under Section 211 of the Energy Reorganization Act to pursue a claim, complaint or charge seeking damages, costs or fees, Executive agrees that the consideration provided to Executive pursuant to this Agreement shall be fully inclusive of all such damages, costs and fees that could have been awarded to Executive, that such consideration is being paid in full and that Executive under no circumstances shall be entitled to compensation of any kind from the Company or any of the other Company Released Parties not expressly provided for pursuant to this Agreement.

31. Legal and Other Expenses. The Company shall pay promptly to Executive all reasonable legal fees and other expenses incurred by Executive (a) in seeking in good faith to obtain or enforce any benefit or right under this Agreement, provided that Executive shall have a reasonable basis for his position, and (b) in connection with his review and negotiation of the terms and conditions of this Agreement; provided, however, that the Company's obligation to pay the Executive pursuant to this clause (b) shall not exceed \$25,000.

32. Sections. Except where otherwise indicated by the context, any reference to a "Section" shall be to a Section of this Agreement.

33. Acknowledgment by Executive. By executing this Agreement, Executive expressly acknowledges that he has read this Agreement carefully, that he fully understands its terms and conditions, that he has been advised to consult with an attorney prior to executing this Agreement, that he has been advised that he has 21 days within which to decide whether or not to execute this Agreement and that he intends to be legally bound by it. During a period of seven days following the date of his execution of this Agreement, Executive shall have the right to revoke the releases contained in Section 15(a) of this Agreement of claims under the age discrimination in employment act by serving within such period written notice of revocation. If Executive exercises his rights under the preceding sentence, he shall forfeit the amount payable to him pursuant to Section 3 of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of the day and year first above written.

EXELON CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

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CORBIN A. McNEILL, JR.

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

**Results of Operations***Year Ended December 31, 2001 Compared to Year Ended December 31, 2000*

**Net Income.** Our net income increased \$264 million, or 102%, for 2001. Income before cumulative effect of changes in accounting principles increased \$252 million, or 97%, for 2001.

**Earnings Before Interest and Income Taxes.** We and our parent Exelon evaluate our performance based on earnings before interest and income taxes (EBIT). In addition to components of operating income as shown on the consolidated statements of income, EBIT includes equity in earnings of unconsolidated affiliates, and other income and expense recorded in other, net, with the exception of investment income.

The October 20, 2000 merger of PECO and Unicom, and the January 1, 2001 corporate restructuring, significantly impacted our results of operations. To provide a more meaningful analysis of results of operations, the EBIT analyses below identifies the portion of the EBIT variance that is attributable to the former ComEd generation business unit results of operations and the portion of the variance that results from normal operations attributable to changes in components of our underlying operations. The merger variance represents the former ComEd generation business unit results for the year ended December 31, 2000 prior to the October 20, 2000 acquisition date as well as the effect of merger-related costs incurred in 2000. The 2000 effects of the merger and restructuring were developed using estimates of various items, including allocation of corporate overheads and intercompany transactions.

	Components of Variance				
	2001	2000	Variance	Merger Variance	Normal Operations
	(in millions)				
Operating Revenue	\$ 7,048	\$ 3,274	\$ 3,774	\$ 2,772	\$ 1,002
Fuel & Purchased Power	4,218	1,846	2,372	1,689	683
Operating & Maintenance and Other	1,586	858	728	978	(250)
Depreciation & Decommissioning	282	123	159	83	76
EBIT	\$ 962	\$ 447	\$ 515	\$ 22	\$ 493

Our EBIT increased \$515 million for 2001 compared to 2000. This increase was primarily attributable to higher margins on increased market and affiliate wholesale energy sales, coupled with reduced operating expenses at the nuclear plants, partially offset by additional depreciation and decommissioning expense. During the first five months of 2001, we benefited from increases in wholesale market prices, particularly in the Pennsylvania-New Jersey-Maryland control area and Mid-America Interconnected Network regions. The increase in wholesale market prices was primarily driven by significant increases in fossil fuel prices. The large concentration of nuclear generation in our portfolio allowed us to capture the higher prices in the wholesale market for sales to non-affiliates with minimal increase in fuel prices. Our revenues for 2001 include charges to affiliates for line losses. Line loss charges were not included in 2000 revenue. We also benefited from higher nuclear plant output due to increased capacity factors during 2001. Energy marketing activities positively impacted 2001 results. Mark-to-market gains were \$16 million and \$14 million on non-trading and trading energy contracts, respectively, offset by realized trading losses of \$6 million.

15

Our sales were 201,879 GWhs in 2001 compared to 200,072 GWhs in 2000, approximately 60% of which were to affiliates. Supply sources for 2001 and 2000 were as follows:

	2001	2000
Operated nuclear units	54%	54%
Purchases	37%	37%
Fossil and hydro units	3%	3%
Generation investments	6%	6%
Total	100%	100%

Our nuclear fleet, including AmerGen, performed at a weighted average capacity factor of 94.4% for 2001 compared to 93.8% in 2000. Our nuclear fleet's production costs, including AmerGen, were \$12.79 per MWh for 2001, compared to \$14.65 per MWh for 2000. Our purchased power costs were \$42.26 MWh for 2001, compared to \$38.05 per MWh for 2000. The increase resulted in purchase power costs from the increase in fuel prices in the first quarter of 2001 as well as the increase in volumes sold during peak demand in 2001 compared to 2000.

Operating expenses were favorably affected by reductions in labor costs due to a decline in the number of employees and fewer nuclear outages in 2001 than in 2000, which offset the effect of increases in litigation-related expenses of \$30 million. In addition, our EBIT benefited from an increase in equity in earnings of AmerGen and Sithe of \$86 million in 2001 compared to the prior-year period reflecting a full year of operations for Sithe and AmerGen's Oyster Creek plant in 2001.

The increase in depreciation and decommissioning expense is primarily due to an increase in decommissioning expense of \$140 million resulting from the discontinuance of regulatory accounting practices associated with decommissioning costs for the former ComEd nuclear generating stations that are in active generation, partially offset by a \$90 million reduction in depreciation and decommissioning expense attributable to the extension of estimated service lives of our generating plants.

**Other Components of Net Income**

**Interest Expense.** Interest expense increased \$74 million in 2001, from \$41 million, in 2000. This increase was primarily attributable to increased interest charge on the note payable to Exelon of \$23 million, interest charges of \$26 million due to the issuance of \$700 million of 6.95% senior unsecured notes in a 144A offering in June 2001, \$23 million of additional interest due to a full year of interest charges on the spent fuel obligation compared to only two months in 2000 for the former ComEd generating stations and \$15 million of interest charges from affiliates. These increases were partially offset by capitalized interest of approximately \$17 million.

**Investment Income.** Investment income is recorded in Other, Net on the Consolidated Statements of Income, but is excluded from EBIT. Investment income decreased by \$29 million due to net realized losses of \$127 million offset by interest and dividend income of \$67 million on the nuclear decommissioning trust funds reflecting the discontinuance of regulatory accounting practices associated with nuclear decommissioning costs for the nuclear stations formerly owned by ComEd, primarily offset by increased income of \$31 million of money market interest and interest on the loan to Sithe recorded in 2001.

**Income Taxes.** The effective income tax rate was 39.0% for 2001 as compared to 38.1% for 2000. The increase in the effective income tax rate was primarily attributable to a higher effective state income rate due to operations in Illinois subsequent to the merger and a reduction in the investment tax credit. Income taxes increased by \$167 million in 2001 as compared to 2000, \$160 million of which is due to higher pretax income and \$7 million due to a higher effective income tax rate.

16

## Cumulative Effect of Changes in Accounting Principles

On January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended, resulting in a benefit of \$12 million, net of income taxes.

### Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

**Net Income.** Our net income increased \$56 million, or 27%, in 2000.

**Earnings Before Interest and Income Taxes.** To provide a more meaningful analysis of our results of operations, the EBIT analysis below identifies the portion of the EBIT variance that is attributable to the former ComEd generation business unit results of operations and the portion of the variance that results from normal operations attributable to changes in components of our underlying operations. The merger variance represents the former ComEd generation business unit results for the period after October 20, 2000 as well as the effect of merger-related costs incurred in 2000. The 2000 and 1999 results also reflect the corporate restructuring as if it had occurred on January 1, 1999. The 2000 effects of the merger and restructuring were developed using estimates of various items, including allocation of corporate overheads and intercompany transactions.

	2000	1999	Variance	Components of Variance	
				Merger Variance	Normal Operations
					(in millions)
Operating Revenue	\$ 3,274	\$ 2,425	\$ 849	\$ 561	\$ 288
Fuel & Purchased Power	1,846	1,205	641	279	362
Operating Expense and Other	858	765	93	180	(87)
Depreciation & Decommissioning	123	125	(2)	31	(33)
EBIT	\$ 447	\$ 330	\$ 117	\$ 71	\$ 46

Our EBIT increased \$117 million for 2000 compared to 1999. The merger accounted for \$71 million of the variance. The remaining \$46 million increase resulted primarily from higher margins on market and affiliate wholesale energy sales, a charge against earnings of \$15 million related to the abandonment of two information systems implementations in 1999 and a \$15 million write-off in 1999 of the investment in a cogeneration facility in connection with the settlement of litigation. Our EBIT benefited from an increase in equity in earnings of AmerGen of \$4 million in 2000 compared to the prior-year period. Effective with the acquisition of Clinton Nuclear Power Station by AmerGen, our agreement to manage Clinton was terminated, resulting in lower revenues of \$99 million and lower operating and maintenance expense of \$70 million.

Our nuclear fleet, including AmerGen, performed at a weighted average capacity factor of 93.8% for 2000. Our nuclear fleet production costs for 2000, including AmerGen, were \$14.65 per MWh. Our purchased power costs for 2000 were \$38.05 per MWh.

### Other Components of Net Income

**Interest Expense.** Interest expense increased \$29 million, or 242%, to \$41 million in 2000. The increase was primarily attributable to interest related to the spent fuel obligation of the former ComEd nuclear plants, which was assumed in connection with the merger, and interest expense related to the \$696 million note payable to Exelon used to finance our investment in Sithe.

**Income Taxes.** The effective tax rate was 38.1% in 2000 as compared to 38.0% in 1999.

17

## Liquidity and Capital Resources

Our capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financings and borrowings or capital contributions from Exelon. Our access to external financing at reasonable terms is dependent on our credit ratings and our general business condition, as well as the general business conditions of the industry. Our business is capital intensive. Capital resources are used primarily to fund our capital requirements, including construction, investments in new and existing ventures, and repayments of maturing debt. Any potential future acquisitions could require external financing or borrowings or capital contributions for Exelon.

**Cash Flows from Operating Activities.** Cash flows provided by operations for 2001 were \$1.3 billion. Our cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including our affiliated companies. Our future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs.

**Cash Flows from Investing Activities.** Cash flows used in investing activities for 2001 were \$1.1 billion, primarily for capital expenditures of \$515 million, investment in nuclear fuel of \$336 million and \$239 million related to our investment in the nuclear decommissioning funds. We project capital expenditures of approximately \$1.1 billion in 2002, approximately 75% of which are for additions to and upgrades of existing facilities, nuclear fuel and increases in capacity at existing plants. Capital expenditures are projected to increase in 2002 as compared to 2001 due to higher nuclear fuel expenditures, growth and an increase in the number of planned refueling outages, during which significant maintenance work is performed. Eleven nuclear refueling outages, including AmerGen, are planned for 2002, compared to six during 2001. Total capital expenditures during nuclear refueling outages are expected to increase in 2002 over 2001 by \$24 million. We anticipate that our capital expenditures will be funded by internally generated funds, external borrowings, and borrowings or capital contributions from Exelon. Our proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

In addition to the 2002 capital expenditures of \$1.1 billion, we expect to close the purchase of two natural-gas and oil-fired plants from TXU Corp. (TXU) in the second quarter of 2002. The \$443 million purchase is expected to be funded with available cash and borrowings from Exelon.

During 2001, we loaned Sithe \$150 million, which was repaid by Sithe in December of 2001. During 2001, Sithe paid us \$2 million in interest on the loan.

**Cash Flows from Financing Activities.** Cash flows used in financing activities were \$1 million in 2001 primarily attributable to the issuance of \$700 million of senior unsecured notes with a maturity of June 2011. The majority of the proceeds of this issuance were used to repay Exelon for amounts borrowed to finance our investment in Sithe. We also issued \$121 million of pollution control bonds to refinance an equivalent amount originally issued by PECO.

**Credit Issues.** We meet short-term liquidity requirements primarily through internally generated cash or borrowings from Exelon. We, along with ComEd, PECO and Exelon, entered into a \$1.5 billion unsecured revolving credit facility with a group of banks. We currently cannot borrow under the credit agreement until we deliver audited financial statements to the banks, which is expected to occur in the second quarter of 2002. At December 31, 2001, we had outstanding \$700 million of 6.95% senior unsecured debt, \$317 million of variable rate pollution control notes and other long-term notes payable of \$9 million. For 2001, the average interest rate on these pollution control notes was approximately 2.62%. Certain of the credit agreements to which we are party require us to maintain a debt to total capitalization ratio of 65% or less. At December 31, 2001, our debt to total capitalization ratio on that basis was 35%.

18



Our access to the capital markets and financing costs in those markets is dependent on our securities ratings. None of our borrowings are subject to default or prepayment as a result of a downgrading of securities ratings, although such a downgrading could increase interest charges under the bank credit facility. We enter agreements to purchase energy and capacity, including obligations that are treated as derivatives, which require us to maintain investment grade ratings. Failure to maintain investment grade ratings would allow a counterparty to terminate its contract and settle the transaction on a net present value basis. Exelon has provided guarantees to support certain of our lines of credit, surety bonds, nuclear insurance and energy marketing contracts.

Exelon has obtained an order from the SEC under PUHCA authorizing financing transactions, including the issuance of common stock, preferred securities, long-term debt and short-term debt in an aggregate amount not to exceed \$4 billion. The order applies to our issuances as well. As of December 31, 2001, \$3.0 billion of financing authority was available under the SEC order. Exelon requested, and the SEC reserved jurisdiction over, an additional \$4 billion in financing authorization. Exelon agreed to limit its short-term debt outstanding to \$3 billion of the \$4 billion total financing authority. Exelon has asked the SEC to eliminate the short-term debt restriction. The SEC order also authorized Exelon to issue guarantees of up to \$4.5 billion outstanding at any one time. At December 31, 2001, Exelon had provided \$1.4 billion of guarantees. Under PUHCA and the Federal Power Act, we can pay dividends only from retained or current earnings. At December 31, 2001, we had retained earnings of \$524 million. Exelon is also limited by order of the SEC under PUHCA to an aggregate investment of \$4 billion in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs). Exelon requested, and the SEC reserved jurisdiction over, an additional \$1.5 billion investment in EWGs and FUCOs.

**Contractual Obligations and Commercial Commitments.** Our contractual obligations and commercial commitments as of December 31, 2001 are as follows:

Obligations/Commitments	Total	Payment Due Within			Due After 5 Years
		1 Year	2-3 Years	4-5 Years	
		(\$ in millions)			
Long-Term Debt(a)	\$ 1,025	\$ 4	\$ 5	\$ —	\$ 1,016
Operating Leases(b)	682	28	63	64	527
Purchase Power Obligations(c)	12,192	1,695	3,173	1,346	5,978
Acquisition of TXU Generating Stations(d)	443	443	—	—	—
Spent fuel obligation(e)	843	—	—	—	843

- (a) Comprised primarily of senior unsecured debt and pollution control notes. In connection with the variable rate debt, we maintain direct pay letters of credit in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate of debt. Letters of credit as of December 31, 2001 amounted to \$317 million, of which \$121 million expire in 2002 and the remaining \$196 million expire in 2003 to 2004. Total includes the current portion of long-term debt.
- (b) Company leases equipment and certain office facilities.
- (c) Commitments relating to the purchase of energy, capacity and transmission rights. Included in amounts are \$3,485 million of power purchases from our affiliate AmerGen.
- (d) Commitment to purchase generating stations in spring of 2002.
- (e) One-time fee of \$277 million with interest to date payable to the DOE for Spent Nuclear Fuel.

We have an obligation to decommission our nuclear power plants. Our current estimate of decommissioning costs for our owned nuclear plants is \$7.2 billion in current-year (2002) dollars.

19

Nuclear decommissioning activity occurs primarily after a plant's retirement and is currently estimated to begin in 2029, except for the retired Zion station, which is currently estimated to begin decommissioning in 2013. Decommissioning costs are recoverable by ComEd and PECO through regulated rates and are remitted to us for deposit in the decommissioning trust funds. In 2001, ComEd and PECO collected from customers and remitted to us approximately \$102 million in decommissioning costs. At December 31, 2001, the decommissioning liability, which is recorded over the life of the plant, recorded in Property, Plant and Equipment, Net as well as Deferred Credits and Other Liabilities on our balance sheet was \$2.7 billion and \$1.3 billion, respectively. In order to fund future decommissioning costs, we held \$3.2 billion of investments in nuclear decommissioning trust funds, which are included as Deferred Debits and Other Assets on our balance sheet and which include net unrealized and realized gains. Due to the performance of the United States debt and equity markets in 2001, the value of assets held in trusts to satisfy the obligations of the nuclear generating stations eventual decommissioning has decreased. Contributions to the nuclear decommissioning trust funds of \$112 million offset net losses of \$109 million, resulting in a 2% increase in the decommissioning trust funds balance at December 31, 2001 compared to December 31, 2000. We believe that the amounts being remitted to us by ComEd and PECO and the earnings on nuclear decommissioning trust funds will be sufficient to fully fund our decommissioning obligations.

**Off Balance Sheet Obligations.** Beginning December 18, 2002, we will have the right to purchase all (but not less than all) of the remaining outstanding shares of the Sithe common stock. The option expires on December 18, 2005. In addition, each of Sithe's other stockholder groups will have the right to require us to purchase all (but not less than all) of its shares during the same period in which we can exercise our option. At the end of that period, if no stockholder has exercised its option, we will have a one-time option to purchase shares from the other stockholders to bring our holdings to 50.1% of the total outstanding shares. If we exercise our option or if all the stockholder groups exercise their put rights, the purchase price for 70% of the remaining 50.1% of the Sithe stock will be set at a fair market value plus a 10% premium in the case of a call or 10% discount in the case of a put, subject to a floor of \$430 million and a ceiling of \$650 million, and the remaining portion will be valued at fair market value subject to floor price of \$141 million and a ceiling price of \$330 million, plus, in each case, interest accrued from the beginning of the exercise period.

If we increase our ownership in Sithe to 50.1% or more, Sithe will become a consolidated subsidiary and our financial results will include Sithe's financial results from the date of purchase. At December 31, 2001, Sithe had total assets of \$4.2 billion and long-term debt of \$2.3 billion, including \$2.1 billion of non-recourse project debt and excluding \$107 million of non-recourse project debt associated with Sithe's equity investments. For the year ended December 31, 2001 Sithe had revenues of \$1 billion. As of December 31, 2001, we had a \$725 million equity investment in Sithe.

Additionally, the debt on the books of our unconsolidated equity investments and joint ventures is not reflected on our Consolidated Balance Sheets. Total investee debt, including the debt of Sithe described in the preceding paragraph, is currently estimated to be \$2.4 billion (\$1.2 billion based on Exelon Generation's ownership interest of the investments).

We and British Energy, our joint venture partner in AmerGen, have each agreed to provide up to \$100 million to AmerGen at any time for operating expenses. We have committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2002.

#### Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks associated with commodity price, 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.

20

Exelon's corporate Risk Management Committee (RMC) sets forth risk management philosophy and objectives through a corporate policy, 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 Exelon's chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning and officers from each of the Exelon business units. The RMC reports to the Exelon Board of Directors on the scope of our derivative and risk management activities.

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

**Marketing (non-trading) activities.** To the extent that our generation supply (either owned or contracted) is in excess of our obligations to customers, including ComEd's and PECO's retail load, the available electricity is sold in the wholesale markets. To reduce price risk caused by market fluctuations, we enter into derivative contracts, including forwards, futures, swaps, and options with approved counterparties, to hedge our anticipated exposures. Market price risk exposure is the risk of a change in the value of unhedged positions. We expect to maintain a minimum 80% hedge ratio in 2002 for our energy marketing portfolio. This hedge ratio represents the percentage of our forecasted aggregate annual generation supply that is committed to firm sales, including sales to our affiliated entities. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand and volatility. Absent any opportunistic efforts to mitigate market price exposure, the estimated market price exposure for the non-trading portfolio associated with a 10% reduction in the average around-the-clock market price of electricity is an approximate \$100 million decrease in net income. This sensitivity assumes an 80% hedge ratio and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. We expect to actively manage our portfolio to mitigate the market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, the price changes, as well as future changes in our portfolio.

**Trading activities.** We began to use financial contracts for trading purposes in the second quarter of 2001. The trading activities were entered into as a complement to our energy marketing portfolio and represent a very limited portion of our overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than 5% of the owned and contracted supply of electricity. The trading portfolio is planned to grow modestly in 2002, subject to stringent risk management limits and policies, including volume, stop-loss and value-at-risk limits to manage exposure to market risk. A value-at-risk (VAR) model is used to assess the market risk associated with financial derivative instruments entered into for trading purposes. VAR represents the potential gains or losses for instruments or portfolios due to changes in market factors, for a specified time period and confidence level. The measured VAR as of December 31, 2001, using a Monte Carlo model with a 95% confidence level and assuming a one-day time horizon was approximately \$800,000. The measured VAR represents an estimate of the potential change in value of our portfolio of trading related financial derivative instruments. These estimates, however, are not necessarily indicative of actual results, which may differ due to the fact that actual market rate fluctuations may differ from forecasted fluctuations and due to the fact that the portfolio may change over the holding period.

Our energy contracts are accounted for under SFAS No. 133. Most non-trading contracts qualify for a normal purchases and normal sales exception under that accounting pronouncement and therefore are not recorded on the balance sheet and marked to market. Contracts that do not qualify for the

21

exception 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, 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 or the ineffective portion of hedge contracts is recognized in earnings on a current basis. Outlined below is a summary of the changes in fair value for those contracts included as assets and liabilities in our balance sheet for the year ended December 31, 2001:

	Non-trading	Trading
	(in millions)	
Fair value of contracts outstanding as of January 1, 2001 (Reflects the adoption of SFAS No. 133)	\$ (7)	\$ —
Change in fair value during 2001:		
Contracts settled during year	87	7
Mark-to-market unrealized gain (loss)	(2)	7
<b>Total change in Fair Value</b>	<b>85</b>	<b>14</b>
Fair value of contracts outstanding at December 31, 2001	\$ 78	\$ 14

The total change in fair value during 2001 is reflected in the 2001 consolidated financial statements as follows:

	Non-trading	Trading
Mark-to-market gain on non-qualifying hedge contracts or hedge ineffectiveness reflected in earnings	\$ 16	\$ 14
Mark-to-market hedge contracts reflected in Other Comprehensive Income	69	—
<b>Total change in fair value</b>	<b>\$ 85</b>	<b>\$ 14</b>

The majority of our contracts are non-exchange traded contracts valued using prices provided by external sources, which primarily represent price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that we believe provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, by region and by 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 and other valuation techniques. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2001 and may change as a result of future

22

changes in these factors. The maturities of the net energy trading and non-trading assets and sources of fair value as of December 31, 2001 are as follows:

	Less than One Year	One - Three Years	Three - Five Years	Total Fair Value
	(in millions)			
<b>Non-trading:</b>				
Actively quoted prices	\$ —	\$ —	\$ —	\$ —
Prices provided by other external sources	36	50	—	86
Prices based on model or other valuation methods	(4)	2	(6)	(8)
<b>Total</b>	<b>\$ 32</b>	<b>\$ 52</b>	<b>\$ (6)</b>	<b>\$ 78</b>
<b>Trading:</b>				
Actively quoted prices	\$ —	\$ —	\$ —	\$ —
Prices provided by other external sources	10	4	—	14
Prices based on model or other valuation methods	—	—	—	—
<b>Total</b>	<b>\$ 10</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 14</b>

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. However, it is possible 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.

**Credit Risk.** We have credit risk associated with counterparty performance, which includes, but is not limited to, the risk of financial default or slow payment. Counterparty credit risk is managed through established policies, including establishing counterparty credit limits, and in some cases requiring deposits or letters of credit to be posted by certain counterparties. Our 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. We have entered into master netting agreements with the majority of our large counterparties, which reduce exposure to risk by providing for the offset of amounts payable to the counterparty against the counterparty receivables.

We participate in the five established, real-time energy markets, which are administered by independent system operators (ISOs): Pennsylvania, New Jersey, Maryland, LLC (PJM), which is in the Mid-Atlantic Area Council region; New England and New York, which are both in the Northeast Power Coordinating Council region; California, which is in the Western Systems Coordinating Council region; and Texas, which is administered by the Electric Reliability Council of Texas. In 2001, approximately one-half of our transactions, on a megawatt-hour basis, were made in these markets. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets which are operated by the ISOs. For sales into the spot markets administered by an ISO, 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.

In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements.

**Interest Rate Risk.** We use 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

23

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upon market conditions. We also use forward-starting interest rate swaps and treasury rate locks to lock in interest rate levels in anticipation of future financings. These strategies are employed to maintain the lowest cost of capital. As of December 31, 2001, a hypothetical 10% increase in the interest rates associated with pollution control bonds would result in an approximately \$1 million decrease in pre-tax earnings for 2002.

**Equity Price Risk.** We maintain trust funds, as required by the NRC, to fund certain costs of decommissioning our nuclear plants. As of December 31, 2001, these funds are reflected at fair value on our balance sheet. The mix of securities is designed to provide returns to be used to fund decommissioning and to compensate, including inflationary increases in decommissioning costs. However, the equity securities in the trusts are exposed to price fluctuations in equity markets, and the value of fixed rate, fixed income securities are exposed to changes in interest rates. We actively monitor the investment performance and periodically review asset allocation in accordance with our nuclear decommissioning trust fund investment guidelines. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$204 million reduction in the fair value of the trust assets.

#### Critical Accounting Policies

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities in the financial statements. The following areas represent those that management believes are particularly important to the financial statements and that require the use of estimates and assumptions to describe matters that are inherently uncertain.

**Accounting for Derivative Instruments.** We use derivative financial instruments primarily to manage our commodity price and interest rate risks. Derivative financial instruments are accounted for under SFAS No. 133. Accounting for derivatives continues to evolve through guidance issued by the Derivatives Implementation Group (DIG) of the Financial Accounting Standards Board. To the extent that changes by the DIG modify current guidance, including the normal purchases and normal sales determination, the accounting treatment for derivatives may change.

**Energy Contracts.** To manage our use of generation supply (including owned and contracted assets), we enter into contracts to purchase or sell electricity, fossil fuels, and ancillary products such as transmission rights and congestion credits, and emission allowances. These energy marketing contracts are considered derivatives under SFAS 133 unless a determination is made that they qualify for a SFAS No. 133 normal purchases and normal sales exclusion. If the exclusion applies, those contracts are not marked-to-market and are not reflected in the financial statements until delivery occurs.

The availability of the normal purchases and normal sales exclusion to specific contracts is based on a determination that excess generation is available for a forward sale and similarly a determination that at certain times generation supply will be insufficient to serve load. This determination is based on internal models that forecast customer demand and generation supply. The models include assumptions regarding customer load growth rates, which are influenced by the economy, weather and the impact of customer choice, and generating unit availability, particularly nuclear generating unit capability factors. The critical assumptions used in the determination of normal purchases and normal sales are consistent with assumptions used in the general corporate planning process.

Energy contracts that are considered derivatives may be eligible for designation as hedges. If a contract is designated as a hedge, the change in its market value is generally deferred as a component of other comprehensive income until the transaction it is hedging occurs. Conversely, the change in the market value of derivatives not designated as hedges is recorded in current period earnings. To qualify as a cash flow hedge, the fair value changes in the derivative must be expected to offset 80%-120% of

24

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the change in fair value or cash flows of the hedged item. The effectiveness of an energy contract designated as a hedge is determined by internal models that measure the statistical correlation between the derivative and the associated hedged item.

When external quoted market prices are not available, we use the Black model, a standard industry valuation model to determine the fair value of energy derivative contracts. The valuation model uses volatility assumptions relating to future energy prices based on specific energy markets and utilizes externally available forward market price curves.

**Interest Rate Derivatives.** We use derivatives to manage our exposure to fluctuation in interest rates and planned future debt issuances. Hedge accounting has been used for all interest rate derivatives to date based on the probability of the transaction and the expected highly effective nature of the hedging relationship between the interest rate swap contract and the interest payment or changes in fair value of the hedged debt. Dealer quotes are available for all of our interest rate swap agreement derivatives.

**Nuclear Decommissioning.** Our current estimate of our nuclear facilities' decommissioning cost is \$7.2 billion in current year dollars. Calculating this estimate involves significant assumptions with respect to the expected increases in decommissioning costs relative to general inflation rates, changes in the regulatory environment or regulatory requirements, and the timing of decommissioning. The estimated service life of a nuclear station is also a significant assumption because decommissioning costs are generally recognized over the life of the generating station. Cost estimates for decommissioning our nuclear facilities have been prepared by an independent engineering firm and reflect currently existing regulatory requirements and available technology. Nuclear station service lives, over which the decommissioning costs are recognized, were extended by 20 years in 2001. The life extension is subject to NRC approval of an extension of existing NRC operating licenses, which generally are 40 years. As discussed in New Accounting Pronouncements, this accounting will be affected by the adoption of SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143) effective January 1, 2003.

**Estimated Service Lives of Property, Plant and Equipment.** We depreciate our generation facilities and other property plant and equipment over estimated useful service lives. These estimated useful service lives are determined using three criteria: (1) economic feasibility, (2) physical feasibility and (3) functional feasibility. Economic feasibility is demonstrated through a cost/benefit analysis that an asset is economically viable and that the asset is providing an overall financial benefit. Physical feasibility represents the fact that the actual plant and equipment can operate during the defined period. Changes in physical feasibility may result from changes in the regulatory environment or environmental restrictions. Functional feasibility evaluates the impact of technology changes on the estimated service lives. In addition, nuclear power stations operate under licenses granted by the NRC. Operating licenses for our operating plants are for 40 years. We have or intend to request 20-year life extensions of these operating licenses. If not extended, nuclear plant service lives would be limited by the expiration of licenses. During 2001, we increased the estimated service lives for our operating nuclear stations, certain fossil stations and our pumped storage station. As a result of the change in service lives, depreciation and decommissioning expense decreased \$90 million (\$54 million, net of income taxes). Annualized savings resulting from the change will be \$132 million (\$79 million, net of income taxes).

#### Outlook

**Changes in the Utility Industry.** The electric utility industry in the United States remains in transition. It is moving from a fully regulated industry, consisting primarily of integrated companies combining generation, transmission and distribution, to competitive wholesale generation markets with continuing regulation of transmission and distribution. The transition has resulted in substantial

disposition of generating assets by formerly integrated companies, the creation of separate and, in some cases, stand-alone generating companies and consolidation. During 2001, however, the pace of industry consolidation has been delayed, it is planning an initiative to standardize wholesale markets in the United States. At the state level, concerns raised by the California experiences have stalled new retail competition initiatives and slowed the separation of generation from regulated transmission and distribution assets.

At the Federal level, FERC remains committed to the development of wholesale generation markets. Although its proposal for the development of large regional transmission organizations to facilitate markets has been delayed, it is planning an initiative to standardize wholesale markets in the United States. At the state level, concerns raised by the California experiences have stalled new retail competition initiatives and slowed the separation of generation from regulated transmission and distribution assets.

We believe that the transition in the electric utility industry will continue, albeit at a slower pace than previously, particularly at the state level. This slower transition may be reflected in reduced industry consolidation in the near term and reduced disaggregation of regulated to unregulated services. These uncertainties may limit opportunities for us to pursue our plans to expand our generation portfolio.

We also believe that competition for electric generation services has created new risks and uncertainties in the industry. Some of these risks were clearly illustrated in California—the risks of inadequate sources of generation, having load obligations without owning generation, and price volatility. The situation in California also illustrated the need for additional infrastructure to support competitive markets. The uncertainties include future prices of generation services in both the wholesale and retail markets, supply and demand volatility, and changes in customer profiles that may impact margins on various electric service offerings. These uncertainties create additional risk for participants in the industry, including us, and may result in increased volatility in operating results from year to year.

**Competitive Position.** We compete nationally in the wholesale electric generation markets on the basis of price and service offerings, using our generation portfolio to assure customers of energy deliverability. We have agreed to supply ComEd and PECO with their load requirements for customers through 2006 and 2010, respectively. We have contracted with Exelon Energy, the competitive retail energy services subsidiary of Exelon, to meet its load requirements pursuant to its competitive retail generation sales agreements and, in addition, we have contracts to sell energy and capacity to third parties. To the extent that our resources exceed our contractual commitments, we market these resources on a short-term basis or sell them in the spot market.

Our supply agreements with ComEd and PECO are expected to provide us with a stable source of revenue; they do not, however, provide us with any guaranteed level of revenue. As long as we have commitments to ComEd and PECO, our revenues will largely be a function of the cost of fulfilling these obligations and how much electricity is available to sell in wholesale markets after fulfilling those contracts. Generally, to the extent market prices decrease, customers may have an incentive to obtain electricity from alternative energy suppliers. To the extent that customers choose alternative energy suppliers, our revenues from contracts with ComEd and PECO will be reduced and our revenues will depend more on prices in the wholesale markets. If market prices increase substantially and our load requirements exceed our generation capacity, we may be required to purchase expensive power in the wholesale markets. Thus, any dramatic change in electricity prices combined with switching by ComEd's and PECO's customers could have an adverse effect on our results of operations or financial condition. Further, while our contracts with ComEd and PECO are currently a substantial portion of our business, we cannot predict whether they will be renewed at the end of their respective terms or, if renewed, what the terms of such renewal would be.

Our future results of operations also depend upon our ability to operate our generating facilities efficiently to meet our contractual commitments and to sell energy services in the wholesale markets. A substantial portion of our generating capacity, including all of the nuclear capacity, is base-load generation designed to operate for extended periods of time at low variable costs. Nuclear generation is currently the most cost-effective way for us to meet our commitments for sales to affiliated entities and other utilities. During 2001, our nuclear generating fleet, including AmerGen, operated at a 94.4% weighted average capacity factor. The number of refueling outages, including AmerGen, is expected to increase to eleven in 2002 from six in 2001 and, accordingly, our planned nuclear capacity factor for 2002 is 91%. Failure to achieve these capacity levels may require us to contract or purchase more expensive energy in the spot market to meet these commitments. Maintenance and capital expenditures during nuclear refueling outages are expected to increase by \$80 million and \$24 million, respectively, in 2002 compared to 2001 as a result of the additional nuclear refueling outages. Because of our reliance on nuclear facilities, any changes in regulations by the NRC requiring additional investments or resulting in increased operating or decommissioning costs of nuclear generating units could adversely affect our results of operations.

After we have met our contractual commitments, we sell energy in the wholesale markets. These sales expose us to the risks of rising and falling prices in those markets, and cash flows may vary accordingly. After our contracts with ComEd and PECO expire, our cash flows will largely be determined by our ability to successfully market energy, capacity and ancillary services and by wholesale prices of electricity.

We currently intend to grow our generation portfolio through investments, acquisitions and the development of new energy projects, the completion of any of which is subject to substantial risk. The competitive energy market is still evolving following deregulation and we may not be successful in anticipating appropriate market opportunities. It is possible that, due to a variety of factors, including purchase price, operating performance and future market conditions, we would be unable to achieve our goals.

Our wholesale marketing division, Power Team, uses our generation portfolio, transmission rights and expertise to ensure delivery of generation to wholesale customers under long-term and short-term contracts. Power Team is responsible for supplying the load requirements of ComEd and PECO and markets the remaining energy in the wholesale markets. Power Team also buys and sells power in the wholesale markets. Trading activities were initiated in 2001 and represent a small portion of Power Team's activity. As of December 31, 2001, trading activities accounted for less than 1% of our EBIT. Trading activities are expected to increase modestly in 2002; trading activity growth will be dependent on the continued development of the wholesale energy markets and Power Team's ability to manage trading and credit risks in those markets. The spot markets also involve the credit risks of market participants purchasing energy, which we may not be able to manage or hedge. We use financial trading primarily to complement the marketing of our generation portfolio. We intend to manage the risk of these activities through a mix of long-term and short-term supply obligations and through the use of established policies, procedures and trading limits. Financial trading, together with the effects of SFAS No. 133, may cause volatility in our future results of operations.

## Other Factors

**Environmental.** Our operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, we are generally liable for the costs of remediating environmental contamination of property now owned by us or formerly owned by ComEd or PECO and of property contaminated by hazardous substances generated by us, ComEd or PECO.

As of December 31, 2001 and 2000, we had accrued \$14 million and \$16 million, respectively, for environmental investigation and remediation costs, other than decommissioning. We expect to spend \$5 million for environmental remediation activities in 2002. We cannot predict whether we will incur other significant liabilities for any additional investigation and remediation costs at these or additional sites identified by us, environmental agencies or others, or whether such costs will be recoverable from third parties.

**Security Issues and Other Impacts of Terrorist Actions.** The events of September 11, 2001 have affected our operating procedures and costs and are expected to affect the cost and availability of the insurance coverages that we carry. The NRC has issued Safeguards and Threat Advisories to all nuclear power plant licensees, including us, requesting that they place their facilities on highest alert security status. In response to the NRC Advisories and on our own initiative, we also implemented enhanced security measures, such as increased guard forces, the erection of additional physical barriers, and heightened communication with authorities at all levels of government. In addition to the Advisories, the NRC began an initiative to perform a "top to bottom" review of its safeguards and security programs and requirements in light of the events of September 11.

On February 25, 2002, the NRC issued immediately effective orders modifying the operating licenses for all nuclear power plants to require all licensees, including us, to implement certain interim security enhancements. The security requirements imposed by the NRC's orders issued to us are currently estimated to increase capital expenditures by approximately \$1 million per station for improvements, such as enhanced vehicle barriers, modifications to plant facilities and increased size of guard forces.

**Insurance.** We carry nuclear liability insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims arising from a single incident. The current limit is \$9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. We carry the maximum available commercial insurance of \$200 million. The remaining \$9.3 billion is provided through mandatory participation in a financial protection pool. Price-Anderson is scheduled to expire on August 1, 2002. While there are numerous bills proposing to review Price-Anderson, we cannot predict at this time whether Congress will renew it or the effects on operations resulting from the expiration of the Price-Anderson Act.

In addition to nuclear liability insurance, we carry property damage and liability insurance for our properties and operations. Our property insurance through Nuclear Electric Insurance Limited (NEIL) provides coverage for damages caused by acts of terrorism at any of our nuclear generating stations. The terrorism endorsement to the NEIL policy specifies that the coverage applies to acts of terrorism similar to the September 11, 2001 events. In the event that one or more acts of terrorism cause accidental property damage within a 12-month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of \$3.24 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity or any other source applicable to such losses. If total property losses exceed available funds under the policy, proportionate recovery is provided to cover a portion of an insured's property losses. The percentage recovery would be equal to the ratio of the insured's property losses and the total of all property losses.

NEIL also provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The policy provides for a waiting period before recovery of costs can commence. The premium for this coverage is subject to assessment for adverse loss experience, with a maximum assessment of \$46 million per year. Recovery under this insurance for terrorist acts is subject to the \$3.24 billion aggregate limit and is secondary to the property insurance described above.

We are self-insured to the extent that any losses may exceed the amount of insurance maintained. NEIL provides property and business interruption insurance for our nuclear operations. In recent years,

28

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NEIL has made distributions to its members. Our distribution for 2001 was \$69 million, which was recorded as a reduction to Operating and Maintenance Expense on our Statements of Income. Due in part to the September 11, 2001 events, we cannot predict the level of future distributions, although they are expected to be lower than historical levels.

In addition, we participate in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose nuclear-related employment began on or after the commencement date of reactor operations. We will not be liable for a retrospective assessment under this new policy. However, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retrospective assessment of up to \$50 million could apply.

We do not carry any business interruption insurance other than NEIL coverage for nuclear operations. We cannot at this time predict the effect on our operations of any changes in any of these insurance policies because of terrorist acts or otherwise.

**Benefit Plans.** We maintain defined benefit pension plans and post-retirement welfare benefit plans. All of our employees are eligible to participate in these plans. Management employees and electing union employees, hired on or after January 1, 2001, are eligible to participate in newly established Exelon cash balance pension plans. Management employees who were active participants in the former ComEd and PECO pension plans on December 31, 2000 and remain employed by Exelon or a participating subsidiary on January 1, 2002, have the opportunity to continue to participate in the pension plan or to transfer to the cash balance plan. Participants in the cash balance plan, unlike participants in the other defined benefit plans, may request a lump-sum cash payment upon the termination of their employment, which may result in increased cash requirements from pension plan assets. We may be required to increase future funding to the pension plan as a result of these increased cash requirements.

Due to the performance of the United States debt and equity markets in 2001, the value of assets held in trusts to satisfy the obligations of pension and postretirement benefit plans has decreased. Also, as a result of the merger and corporate restructuring, there was a larger number of employees taking advantage of retirement benefits in 2001 than in other years. These factors may also result in additional future funding requirements of the pension and postretirement benefit plans.

#### New Accounting Pronouncements

In 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" (SFAS No. 141), SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142, SFAS No. 143, and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. In addition, SFAS No. 141 requires that unamortized negative goodwill related to pre-July 1, 2001 purchase be recognized as change in accounting principle concurrent with the adoption of SFAS No. 142. Included on AmerGen's balance sheet is \$43 million of negative goodwill, net of accumulated amortization. Upon AmerGen's adoption of SFAS No. 141 on January 1, 2002, we will recognize our appropriate share of approximately \$22 million in additional income as a cumulative effect of a change in accounting principle.

SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. We adopted SFAS No. 142 as of January 1, 2002. Under SFAS No. 142, effective January 1,

29

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2002, goodwill is no longer subject to amortization. After January 1, 2002, goodwill will be subject to an assessment for impairment using a two-step fair value based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss would be reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss would be reflected as a cumulative effect of a change in accounting principle. As of December 31, 2001, we did not have any goodwill recorded on our Consolidated Balance sheets. Accordingly, we do not expect the adoption of SFAS No. 142 to have a material impact on our financial statements.

SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. We expect to adopt SFAS No. 143 on January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. Adoption of SFAS No. 143 will change the accounting for the decommissioning of our nuclear generating plants. Currently, we record the obligation for decommissioning ratably over the lives of the plants. The January 1, 2003 adoption of this standard will require a cumulative effect adjustment effective the date of adoption to adjust plant assets and decommissioning liabilities to the values they would have been had SFAS No. 143 been employed from the in-service dates of the plants.

The effect of this cumulative adjustment will be to increase the decommissioning liability to reflect a full decommissioning obligation in current year dollars. Additionally, SFAS No. 143 will require the accrual of an asset related to the full amount of the decommissioning obligation, which will be amortized over the remaining lives of the plants. The difference between the asset recognized and the liability recorded upon adoption of the standard will be charged to earnings and recognized as a cumulative effect, net of expected regulatory recovery. The decommissioning liability to be recorded represents an obligation for the future decommissioning of the plants, and as a result, interest expense will be accrued on this liability until such time as the obligation is satisfied.

We are in the process of evaluating the impact of SFAS No. 143 on our financial statements, and cannot determine the ultimate impact of adoption at this time; however, the cumulative effect could be material to our earnings. Additionally, although over the life of the plant the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts currently recognized as decommissioning expense, the timing of those charges will change and in the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability could result in an increase in expense.

SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. This statement is effective for fiscal years beginning after December 15, 2001 and provisions of this statement are generally applied prospectively. We are in the process of evaluating the impact of SFAS No. 144 on our financial statements, and we do not expect the impact to be material.

30

**Index to Financial Statements**

	Page(s)
Report of Independent Accountants	F-2
Consolidated Financial Statements:	
Statements of Income	F-3
Statements of Cash Flows	F-4
Balance Sheets	F-5
Statements of Changes in Divisional/Member's Equity	F-6
Statements of Other Comprehensive Income	F-7
Notes to Consolidated Financial Statements	F-8 - 39

F-1

**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Member and Board of Directors  
of Exelon Generation Company LLC

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income, cash flows, changes in divisional/member's equity and comprehensive income present fairly, in all material respects, the financial position of Exelon Generation Company, LLC and Subsidiary Companies (Exelon Generation) at December 31, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Exelon Generation's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, Exelon Generation's parent company, Exelon Corporation, acquired Unicom Corporation on October 20, 2000 in a business combination accounted for under the purchase method of accounting. The results of the acquired generation-related business are included in the consolidated financial statements of Exelon Generation since the acquisition date.

As discussed in Note 1, Exelon Generation changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 1, 2002  
Philadelphia, PA

F-2

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

**CONSOLIDATED STATEMENTS OF INCOME**

(Dollars in Millions)

	For the Years Ended December 31,		
	2001	2000	1999
<b>Operating revenues:</b>			
Operating revenues	\$ 2,946	\$ 1,723	\$ 1,584
Operating revenues—affiliates	4,102	1,551	841
Total operating revenues	7,048	3,274	2,425
<b>Operating expenses:</b>			
Fuel and purchased power	4,093	1,845	1,205
Purchased power—affiliates	125	1	—
Operating and maintenance	1,338	754	658
Operating and maintenance—affiliates	189	46	100
Depreciation and decommissioning	282	123	125
Taxes other than income	149	64	37
Total operating expenses	6,176	2,833	2,125
<b>Operating income</b>	872	441	300
<b>Other income and deductions:</b>			
Interest expense	(115)	(41)	(12)
Equity in earnings of unconsolidated affiliates	90	4	—
Other, net	(8)	16	41
Total other income and deductions	(33)	(21)	29
<b>Income before income taxes and cumulative effect of a change in accounting principle</b>	839	420	329
<b>Income taxes</b>	327	160	125
<b>Income before cumulative effect of a change in accounting principle</b>	512	260	204

	12	—	—
Net income	\$ 524	\$ 260	\$ 204

F-3

## EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	For the Years Ended December 31,		
	2001	2000	1999
<b>Cash flows from operating activities:</b>			
Net income	\$ 524	\$ 260	\$ 204
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and decommissioning (including amortization of nuclear fuel)	674	289	270
Provision for uncollectible accounts	15	2	—
Allowance for obsolete inventory	11	1	—
Cumulative effect of a change in accounting principle (net of income taxes)	(12)	—	—
Deferred income taxes	33	(47)	23
Amortization of investment tax credit	(8)	(13)	(12)
Earnings from equity investments	(90)	(4)	—
Net realized losses on decommissioning trust funds	127	—	—
Unrealized gains on derivative financial instruments	(30)	—	—
Interest expense on spent nuclear fuel obligation	33	10	—
Expense in contributions to long term incentive plan	—	44	—
Other operating activities	(6)	(4)	22
Changes in working capital:			
Accounts receivable	127	(158)	(54)
Accounts receivable from affiliates	104	(342)	(66)
Accounts payable to affiliates	(99)	99	—
Inventories	(22)	(58)	(5)
Accounts payable	(101)	91	(70)
Accrued expenses	61	286	114
Other current assets	2	37	(7)
Other current liabilities	(12)	(17)	10
<b>Net cash provided by operating activities</b>	<b>1,331</b>	<b>476</b>	<b>429</b>
<b>Cash flows from investing activities:</b>			
Investment in nuclear fuel	(336)	(112)	(95)
Investment in plant	(515)	(214)	(253)
Investment in AmerGen Energy, LLC	—	—	(39)
Investment in Sithe Energies, Inc.	—	(704)	—
Change in long-term receivable, affiliate	72	1	—
Proceeds from nuclear decommissioning trust funds	1,624	265	69
Investment in nuclear decommissioning trust funds	(1,863)	(380)	(95)
Other investment activity	(92)	(20)	(18)
<b>Net cash used in investing activities</b>	<b>(1,110)</b>	<b>(1,164)</b>	<b>(431)</b>
<b>Cash flows from financing activities:</b>			
Change in note payable, member	(696)	696	—
Issuance of long-term debt, net of issuance costs	820	—	6
Retirement of long-term debt	(4)	(4)	(4)
Distributions to member	(121)	—	—
<b>Net cash (used in) provided by financing activities</b>	<b>(1)</b>	<b>692</b>	<b>2</b>
<b>Increase in cash and cash equivalents</b>	<b>220</b>	<b>4</b>	<b>—</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 224</b>	<b>\$ 4</b>	<b>\$ —</b>

F-4

## EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

	December 31,	
	2001	2000
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 224	\$ 4
Accounts receivable, net		
Customer	316	316
Other	165	198

Affiliates	327	941
Inventories, net, at average cost:		
Fossil fuel	105	93
Materials and supplies	202	203
Other	65	38
Total current assets	1,404	1,793
Property, plant and equipment, net	1,160	831
Nuclear fuel, net	843	896
<b>Deferred debits and other assets:</b>		
Deferred income taxes, net	297	337
Nuclear decommissioning trust funds	3,165	3,127
Investments	859	762
Receivables from affiliate	291	363
Other	223	153
Total deferred debits and other assets	4,835	4,742
<b>Total assets</b>	<b>\$ 8,242</b>	<b>\$ 8,262</b>
	<b>Liabilities and Divisional/Member's Equity</b>	
<b>Current liabilities:</b>		
Note payable to parent	\$ —	\$ 696
Payable to affiliate	—	99
Long-term debt due within one year	4	4
Accounts payable	588	618
Accrued expenses	303	576
Deferred income taxes	7	—
Other	171	183
Total current liabilities	1,073	2,176
Long-term debt	1,021	205
<b>Deferred credits and other liabilities:</b>		
Unamortized investment tax credits	234	242
Nuclear decommissioning liability for retired plants	1,353	1,301
Pension obligations	118	172
Non-pension postretirement benefits obligation	384	377
Spent nuclear fuel obligation	843	810
Other	280	369
Total deferred credits and other liabilities	3,212	3,271
<b>Commitments and contingencies (See Note 11)</b>	—	—
<b>Divisional equity</b>	—	2,610
<b>Member's equity:</b>		
Membership interest	2,315	—
Undistributed earnings	524	—
Accumulated other comprehensive income	97	—
Total divisional/member's equity	2,936	2,610
<b>Total liabilities and divisional/member's equity</b>	<b>\$ 8,242</b>	<b>\$ 8,262</b>

The accompanying notes are an integral part of these consolidated financial statements.

F-5

**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN DIVISIONAL/MEMBER'S EQUITY**

(Dollars in Millions)

	Divisional Equity	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Income	Total Divisional/ Member's Equity
Balance, January 1, 1999	\$ 746	\$ —	\$ —	\$ —	\$ 746
Net income	204				204
Balance, December 31, 1999	950				950
Net income	260				260
Contribution of net assets as a result of merger with Unicom	1,400				1,400
Balance, December 31, 2000	2,610				2,610
Formation of LLC	(2,610)	2,610			—
Non-cash distribution to member		(174)			(174)
Net income			524		524
Distribution to member		(121)			(121)



Reclassified net unrealized losses on marketable securities, net of income taxes of \$22					(23)	(23)				
Comprehensive income, net of income tax benefit of \$171					120	120				
Balance, December 31, 2001	\$	—	\$	2,315	\$	524	\$	97	\$	2,936

The accompanying notes are an integral part of these consolidated financial statements.

F-6

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in Millions)

	For the Years Ended December 31		
	2001	2000	1999
Net income	\$ 524	\$ 260	\$ 204
Other comprehensive income:			
SFAS 133 transitional adjustment, net of income taxes of \$3	5		
Net unrealized gains on nuclear decommissioning trust funds, net of income taxes of \$138	69		
Cash flow hedge fair value adjustment, net of income taxes of \$29	48		
Realized loss on forward starting interest rate swap net of income taxes of \$1	(2)		
Total other comprehensive income	120	—	—
Total comprehensive income	\$ 644	\$ 260	\$ 204

The accompanying notes are an integral part of these consolidated financial statements.

F-7

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in Millions, unless otherwise noted)

**1. Summary of Significant Accounting Policies**

**Description of Business**

Exelon Generation Company, LLC (Exelon Generation) is a limited liability company engaged principally in the production and wholesale marketing of electricity in various regions of the United States. In 2001, the Company also began trading activities. Exelon Generation is wholly owned by Exelon Corporation (Exelon). In connection with the restructuring by Exelon to separate the regulated energy delivery business of its subsidiaries Commonwealth Edison Company (ComEd) and PECO Energy Company (PECO) from its unregulated businesses, including its generation business, Exelon Generation began operations as a separate indirect subsidiary of Exelon effective January 1, 2001. Exelon Generation has numerous wholly owned subsidiaries. These subsidiaries were primarily established to hold certain hydro electric and peaking unit facilities as well as the 49.9% interest in Sithe Energies, Inc. (Sithe) and 20.99% investment in Keystone Fuels, LLC. In addition, Exelon Generation also has a finance company subsidiary, Exelon Generation Finance Company, LLC, which provides certain financing for Exelon Generation's other subsidiaries. Exelon Generation also owns a 50% investment in AmerGen Energy Company, LLC (AmerGen).

**Basis of Presentation**

The consolidated financial statements include the accounts of all majority-owned subsidiaries of Exelon Generation after the elimination of intercompany accounts and transactions. Exelon Generation consolidates its proportionate interest in jointly owned electric utility plants. Exelon Generation accounts for its investments in 20% to 50% owned entities under the equity method of accounting.

The consolidated financial statements of Exelon Generation as of December 31, 2000 and for the years ended December 31, 2000 and 1999 present the financial position, results of operations and net cash flows of the generation-related business of Exelon prior to its corporate restructuring on January 1, 2001. Exelon Generation operated as a separate business subsequent to electric-industry restructuring in Pennsylvania effective January 1, 1999. Prior to that date, Exelon (and its predecessor, PECO Energy Company) operated as a fully integrated electric and gas utility, and revenues and expenses were not separately identified in the accounting records. The consolidated financial statements are not necessarily indicative of the financial position, results of operations or net cash flows that would have resulted had the generation-related business been a separate entity during the periods presented. For periods prior to the restructuring, references to Exelon Generation mean the generation-related business of Exelon Corporation.

Certain information in these consolidated financial statements relating to the results of operations and financial condition of Exelon Generation for periods prior to Exelon's restructuring was derived from the historical financial statements of Exelon. Various allocation methodologies were employed to separate the results of operations and financial condition of the generation-related portion of Exelon's business from the historical financial statements for the periods presented prior to the restructuring. Revenues include the generation component of revenue from Exelon's operations and any generation-related revenues, such as ancillary services and wholesale energy activity. Expenses including fuel and other energy-related costs, including purchased power, operations and maintenance and depreciation and amortization, as well as assets, such as property, plant and equipment, materials and supplies and fuel, were specifically identified for Exelon Generation's operations. Various allocations were used to

F-8

disaggregate other common expenses, assets and liabilities between Exelon Generation and Exelon's other businesses, primarily the regulated transmission and distribution operations.

Management believes that these allocation methodologies are reasonable; however, had Exelon Generation existed as a separate company prior to January 1, 2001, its results could have significantly differed from those presented herein. In addition, future results of operations, financial position and net cash flows could materially differ from the historical results presented.

**Segment Information**

Exelon Generation operates in one business comprising its generation and marketing of energy and energy-related products in the United States.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates have been made in the accounting for derivatives, nuclear decommissioning liabilities and estimated service lives for plant.

## Revenue Recognition

Operating revenues are generally recorded as service is rendered or energy is delivered to customers. At the end of each month, Exelon Generation accrues an estimate for unbilled energy provided to its customers. Premiums received and paid on option contracts and swap arrangements are amortized to revenue and expense over the life of the contracts. Certain of these contracts are considered derivative instruments and are recorded at fair value with subsequent changes in fair value recognized as revenues and expenses unless hedge accounting is applied.

Commodity derivatives used for trading purposes are accounted for using the mark-to-market method. Under this methodology, these derivatives are adjusted to fair value, and the unrealized gains and losses are recognized in current period income.

## Nuclear Fuel

The cost of nuclear fuel is capitalized and charged to fuel expense using the units of production method. Estimated costs of nuclear fuel storage and disposal at operating plants are charged to expense as the related fuel is consumed.

## Emission Allowances

Emission allowances are included in deferred debits and other assets and are carried at acquisition cost and charged to fuel expense as they are used in operations. Allowances held can be used from years 2002 to 2028.

F-9

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## Depreciation and Decommissioning

Depreciation is provided over the estimated useful service lives of the property, plant and equipment on a straight-line basis. Nuclear power stations operate under licenses granted by the Nuclear Regulatory Commission (NRC.) Operating licenses for Exelon Generation's operating plants are for 40 years. Exelon Generation has or intends to request 20 year extensions of these operating licenses. If not extended, nuclear plant service lives would be limited by the expiration of the licenses.

The average estimated useful service lives currently being applied to determine depreciation and decommissioning expense of property, plant and equipment by type of asset are as follows:

Nuclear	60 years
Fossil	40 years
Hydro	100 years
Other	5-50 years

Exelon Generation's current estimate of the costs for decommissioning its ownership share of its nuclear generation stations is charged to operations over the expected service life of the plant. Exelon Generation's affiliates PECO and ComEd are currently recovering costs for the decommissioning of nuclear generating stations through regulated customer rates. Amounts collected for decommissioning by Exelon Generation's affiliates are remitted to Exelon Generation and are deposited in trust accounts and invested for the funding of future decommissioning costs. Exelon Generation accounts for the current period's cost of decommissioning related to generation plants previously owned by PECO by recording a charge to depreciation and decommissioning expense and a corresponding liability in accumulated depreciation concurrently with decommissioning collections.

For Exelon Generation's active nuclear generating stations previously owned by ComEd, annual decommissioning expense is based on an annual assessment of the difference between the current cost of decommissioning estimate and the decommissioning liability recorded in accumulated depreciation. The difference is amortized to depreciation and decommissioning expense on a straight-line basis over the remaining lives of the operating plants with the corresponding offset to accumulated depreciation. The current decommissioning cost estimate (adjusted annually to reflect inflation), for the former ComEd retired units recorded in deferred credits and other liabilities is accreted to depreciation and decommissioning expense. Exelon Generation believes that the amounts being recovered by ComEd and PECO from their customers through electric rates along with the earnings on the trust funds will be sufficient to fully fund its decommissioning obligations.

## Research and Development

Research and development costs are charged to expense as incurred.

## Capitalized Interest

Exelon Generation capitalizes the costs during construction of debt funds used to finance its construction projects. Exelon Generation recorded capitalized interest of \$17 million, \$2 million and \$6 million in 2001, 2000 and 1999, respectively.

F-10

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## Income Taxes

As part of Exelon's consolidated group, Exelon Generation files a consolidated Federal income tax return with Exelon. Income taxes are allocated to each of Exelon subsidiaries within the consolidated group, including Exelon Generation, based on the separate return method.

Deferred Federal and state income taxes are provided on all temporary differences between book bases and tax bases of assets and liabilities. Investment tax credits previously used for income tax purposes have been deferred on Exelon Generation's consolidated balance sheet and are recognized in income over the life of the related property.

## Cash and Cash Equivalents

Exelon Generation considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

## Marketable Securities

Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The cost of these securities is determined on the basis of specific identification. At December 31, 2001 and 2000, Exelon Generation had no held-to-maturity or trading securities.

Unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds associated with the former PECO plants are reported in accumulated depreciation. Unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds associated with the former ComEd plants are reported in accumulated other comprehensive income.

## Inventories

Inventories, which consist primarily of fuel and materials and supplies, are valued at the lower of cost or market and are stated on the average cost method.

### **Property, Plant and Equipment**

Property, plant and equipment is recorded at cost. Exelon Generation evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. The cost of maintenance, repairs and minor replacements of property are charged to maintenance expense as incurred. The cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition.

### **Comprehensive Income**

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to the member. Comprehensive income primarily relates to unrealized

F-11

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gains or losses on securities held in nuclear decommissioning trust funds and unrealized gains and losses on cash flow hedge instruments.

### **Derivative Financial Instruments**

Subsequent to January 1, 2001, Exelon Generation accounts for derivative financial instruments under SFAS No. 133 "Accounting for Derivatives and Hedging Activities" (SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases or normal sales exception. Derivative financial instruments are recorded as other assets and liabilities in the consolidated balance sheet and classified as current or non-current based on the maturity date. Changes in the fair value of the derivative financial instruments are recognized in earnings unless specific hedge accounting criteria are met. A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

Pursuant to Exelon's Risk Management Policy (RMP), Exelon Generation uses derivatives to manage the utilization of its available generating capability and provisions of wholesale energy to its affiliates. Exelon Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Exelon Generation enters into certain energy related derivatives for trading or speculative purposes. Exelon Generation may also enter into derivatives to manage its exposure to fluctuation in interest rates related to its variable rate debt instruments, changes in interest rates related to planned future debt issuances prior to their actual issuance and changes in the fair value of outstanding debt which is planned for early retirement. As part of Exelon Generation's energy marketing business, Exelon Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While these contracts are considered derivative financial instruments under SFAS No. 133, the majority of these transactions have been designated as "normal purchases" and "normal sales" and are not subject to the provisions of SFAS No. 133. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. Under these contracts Exelon Generation recognizes gains or losses when the underlying physical transaction occurs. Revenues and expenses associated with market price risk management contracts are amortized over the terms of such contracts. The remainder of these contracts are generally considered cash flow hedges under SFAS No. 133.

F-12

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Additionally, during 2001, as part of the creation of Exelon Generation's energy trading operation, Exelon Generation began to enter into contracts to buy and sell energy for trading purposes, subject to limits. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings.

Prior to the adoption of SFAS No. 133, Exelon Generation applied hedge accounting only if the derivative reduced the risk of the underlying hedged item and was designated at the inception of the hedge, with respect to the hedged item. Exelon Generation recognized any gains or losses on these derivatives when the underlying physical transaction affected earnings.

Contracts entered into by Exelon Generation to limit market risk associated with forward energy commodity contracts are reflected in the financial statements at the lower or cost or market using the accrual method of accounting. Under these contracts Exelon Generation recognizes any gains or losses when the underlying physical transaction affects earnings. Revenues and expenses associated with market price risk management contracts were amortized over the terms of such contracts.

### **Recently Issued Accounting Standards**

During 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS No. 141), No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), No. 143, "Asset Retirement Obligations" (SFAS No. 143) and No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. In addition, SFAS No. 141 requires that unamortized negative goodwill related to pre-July 1, 2001 purchase be allocated as a pro-rata reduction of the amounts that otherwise would have been assigned to the acquired assets. If any excess remains, that remaining excess is to be recognized as an extraordinary gain concurrent with the adoption of SFAS No. 142. Included on AmerGen's balance sheet is \$43 million of negative goodwill net of accumulated amortization. Upon AmerGen's adoption of SFAS No. 141 in the first quarter of 2002, Exelon Generation expects to recognize its appropriate share of approximately \$22 million, pre-tax, as a cumulative effect of a change in accounting principle.

SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. Exelon Generation adopted SFAS No. 142 as of January 1, 2002. Under SFAS No. 142, goodwill will no longer be subject to amortization. After January 1, 2002, goodwill will be subject to an assessment for impairment using a fair value based test at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. An impairment loss would be reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss would be reflected as a cumulative effect of a change in accounting principle. As of December 31, 2001, Exelon Generation has no goodwill recorded on its consolidated balance sheet.

SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. Exelon Generation expects to adopt SFAS No. 143 on January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract

F-13

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or by legal construction under the doctrine of promissory estoppel. Adoption of SFAS No. 143 will change the accounting for the decommissioning of Exelon Generation's nuclear generating plants. Currently, Exelon Generation records the obligation for decommissioning ratably over the lives of the plants. The January 1, 2003 adoption of SFAS No. 143 will require a cumulative effect adjustment effective the date of adoption to adjust plant assets and decommissioning liabilities to the values they would have been had this standard been employed from the in-service dates of the plants. The effect of this cumulative adjustment will be to increase the decommissioning liability to reflect a full decommissioning obligation in current year dollars. Additionally, the SFAS No. 143 standard will require the accrual of an asset, to the extent allowable under the standard, related to the full amount of the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference between the asset recognized and the liability recorded upon adoption of the standard will be charged to earnings and recognized as a cumulative effect, net of

expected regulatory recovery. The decommissioning liability to be recorded represents an obligation for the future decommissioning of the plants, and as a result interest expense will be accrued on this liability until such time as the obligation is satisfied.

Exelon Generation is in the process of evaluating the impact of SFAS No. 143 on its financial statements, and cannot determine the ultimate impact of adoption at this time, however the cumulative effect could be material to Exelon's earnings. Additionally, although over the life of the plant the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts currently recognized as decommissioning expense, the timing of those charges will change and in the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability could result in a significant increase in expense.

SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and provisions of SFAS No. 144 are generally applied prospectively. Exelon Generation is in the process of evaluating the impact of SFAS No. 144 on its financial.

## 2. Merger

On October 20, 2000 Exelon became the parent corporation for PECO and ComEd as a result of the completion of the transactions contemplated by the Agreement and Plan of Exchange and Merger, as amended (Merger Agreement) among PECO, Unicom Corporation and Exelon. The Merger was accounted for using the purchase method of accounting, with PECO as acquirer.

F-14

The fair value of the assets acquired and liabilities assumed in the merger associated with the generation-related business of ComEd are summarized below:

Current assets	\$ 704
Property, plant and equipment	64
Nuclear fuel	669
Deferred debits and other assets	3,683
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	5,120
Current liabilities	634
Deferred credits and other liabilities	3,086
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	3,720
	<hr/>
Net generation-related assets	\$ 1,400
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Exelon Generation has included the generation-related assets and liabilities of ComEd and the related results of operations in its consolidated financial statements beginning October 20, 2000. Exelon Generation's Statement of Changes in Member's Equity reflects the generation-related impacts of the Merger as a capital contribution from Exelon.

## 3. Corporate Restructuring

During January 2001, Exelon undertook a corporate restructuring to separate its generation and other competitive businesses from its regulated energy delivery businesses conducted by ComEd and PECO. As part of the restructuring, the generation-related operations, employees, assets, liabilities, and certain commitments of Exelon Corporation were transferred to Exelon Generation.

F-15

The assets and liabilities transferred to Exelon Generation as of January 1, 2001 were as follows:

<b>Assets</b>	
Current assets	\$ 1,285
Property, plant and equipment	831
Nuclear fuel	896
Nuclear decommissioning trust funds	3,127
Investments	762
Deferred income taxes	337
Note receivable from affiliate	363
Other noncurrent assets	153
	<hr/>
Total assets transferred	7,754
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<b>Liabilities</b>	
Note payable to member	696
Current liabilities	1,146
Long-term debt	205
Decommissioning obligation for retired plants	1,301
Other noncurrent liabilities	1,970
	<hr/>
Total liabilities transferred	5,318
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Net assets transferred	\$ 2,436
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On January 1, 2001, a non-cash distribution of \$174 million was made in connection with the elimination of certain intercompany transactions.

In connection with the restructuring, ComEd and PECO also assigned their respective rights and obligations under various power purchase and fuel supply agreements to Exelon Generation. Additionally, Exelon Generation entered into power purchase agreements (PPAs) to supply the capacity and energy requirements of ComEd and PECO.

## 4. Equity Investments

### Sithe Energies, Inc.

On December 18, 2000, Exelon Generation acquired 49.9% of the outstanding common stock of Sithe for \$696 million in cash and \$8 million of acquisition costs. Sithe, headquartered in New York, is a leading independent power producer, with ownership interests in 27 facilities in North America. Sithe has net generation capacity of 3,371 MW, primarily in New York and Massachusetts, 2,651 MW under construction and 2,400 MW in advanced development.

Beginning December 18, 2002, Exelon Generation will have the right to purchase all (but not less than all) of the remaining outstanding shares of the Sithe common stock. The option expires on December 18, 2005. In addition, each of Sithe's other stockholder groups will have the right to require us to purchase all (but not less than all) of its shares during the same period in which Exelon

Exelon Generation will have a one-time option to purchase shares from the other stockholders to bring its holdings to 50.1% of the total outstanding shares. If Exelon Generation exercise its option or if all the stockholder groups exercise their put rights, the purchase price for 70% of the remaining 50.1% of the Sithe stock will be set at a fair market value plus a 10% premium in the case of a call or 10% discount in the case of a put, subject to a floor of \$430 million and a ceiling of \$650 million, and the remaining portion will be valued at fair market value, subject to a floor price of \$141 million and a ceiling price of \$330 million, plus, in each case, interest accrued from the beginning of the exercise period.

If Exelon Generation increases its ownership in Sithe to 50.1% or more, Sithe will become a consolidated subsidiary and Exelon Generation's financial results will include Sithe's financial results from the date of purchase. At December 31, 2001, Sithe had total assets of \$4.2 billion and long-term debt of \$2.3 billion, including \$2.1 billion of non-recourse project debt, and excluding any non-recourse project debt associated with Sithe's equity investments. For the year ended December 31, 2001 Sithe had revenues of approximately \$1 billion. In December 2001, Sithe entered into a new 18-month corporate credit facility for \$500 million expiring in June 2003. As of December 31, 2001 Sithe had drawn approximately \$176 million under this facility and extended approximately \$161 million in letters of credit.

Exelon Generation's investment in Sithe as of December 31, 2001 and 2000 was \$725 million and \$704 million, respectively.

#### AmerGen Energy Company, LLC

Exelon Generation and British Energy, Inc, a wholly owned subsidiary of British Energy, plc, each own a 50% equity interest in AmerGen Energy Company, LLC (AmerGen). Established in 1997, AmerGen was formed to pursue opportunities to acquire and operate nuclear generation facilities in the North America. Currently, AmerGen owns and operates three nuclear generation facilities: Clinton Power Station (Clinton) located in Illinois, Three Mile Island (TMI) Unit 1 located in Pennsylvania, and Oyster Creek, which was acquired in August 2000, located in New Jersey. Oyster Creek was acquired from GPU, Inc. (GPU) for \$10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs of \$89 million, including the cost of fuel, for a refueling outage that occurred in 2000. AmerGen is repaying these costs to GPU in equal annual installments through 2009. In addition, AmerGen assumed full responsibility for the ultimate decommissioning of Oyster Creek. At the closing of the sale, GPU provided funding for the decommissioning trust of \$440 million. In conjunction with this acquisition, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission Oyster Creek discounted to net present value using the NRC's mandated rate of 2%. As part of each acquisition, AmerGen entered into a power sales agreement with the seller. The agreement with the seller for Clinton calls for Exelon Generation to sell 75% of the output back to Illinois Power for a term expiring at the end of 2005. The agreements with the seller of TMI and Oyster Creek are for all of the output expiring in 2001 and 2003, respectively.

AmerGen maintains a nuclear decommissioning trust fund for each of its plants in accordance with NRC regulations and believes that amounts in these trust funds, together with the investment earnings

thereon and additional contributions for Clinton from Illinois Power, will be sufficient to meet its decommissioning obligations.

Exelon Generation's investment in AmerGen as of December 31, 2001 and 2000 was \$113 million and \$44 million, respectively.

The table below presents summarized financial information for Sithe and AmerGen, Exelon Generation's unconsolidated equity affiliates:

Income Statement Information	Year Ended December 31,		
	2001	2000	1999
Operating revenues	\$ 1,691	\$ 1,675	\$ 15
Operating income	297	546	4
Income before extraordinary items and cumulative effect of change in accounting principle	(8)	254	4
Net income	\$ (8)	\$ 254	\$ 4

  

Balance Sheet Information	Year Ended December 31,	
	2001	2000
Current assets	\$ 745	\$ 588
Noncurrent assets	5,126	3,930
Total assets	\$ 5,871	\$ 4,518
Current liabilities	591	1,072
Noncurrent liabilities	3,714	2,025
Members' capital	80	80
Undistributed earnings (deficit)	155	(1)
Additional paid-in capital	735	735
Retained earnings	647	602
Accumulated other comprehensive income (loss)	(51)	5
Total capitalization and liabilities	\$ 5,871	\$ 4,518

## 5. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

	December 31,	
	2001	2000
Generation plant	\$ 4,344	\$ 4,142
Construction work-in-progress	610	380
Total property, plant and equipment	4,954	4,522
Less: accumulated depreciation (including decommissioning costs for active nuclear stations)	3,794	3,691

**6. Jointly Owned Facilities—Property, Plant and Equipment**

Exelon Generation's ownership interest in jointly owned generation plant at December 31, 2001 and 2000 were as follows:

2001					
Plant	Peach Bottom	Salem	Keystone	Conemaugh	Quad Cities
Operator	Exelon Generation	PSEG Nuclear	Sithe	Sithe	Exelon Generation
Participating Interest	50.00%	42.59%	20.99%	20.72%	75.00%
Generation plant	\$ 387	\$ 12	\$ 121	\$ 193	\$ 96
Construction work-in-progress	13	53	13	12	52
Total property, plant and equipment	400	65	134	205	148
Accumulated depreciation	220	4	98	124	10
Property, plant and equipment, net	\$ 180	\$ 61	\$ 36	\$ 81	\$ 138
2000					
Plant	Peach Bottom	Salem	Keystone	Conemaugh	Quad Cities
Operator	Exelon Generation	PSEG Nuclear	Sithe	Sithe	Exelon Generation
Participating Interest	46.25%	42.59%	20.99%	20.72%	75.00%
Generation plant	\$ 378	\$ 3	\$ 120	\$ 190	\$ 84
Construction work-in-progress	41	41	4	10	38
Total property, plant and equipment	419	44	124	200	122
Accumulated depreciation	214	3	94	118	2
Property, plant and equipment, net	\$ 205	\$ 41	\$ 30	\$ 82	\$ 120

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

On September 30, 1999, PECO reached an agreement to purchase an additional 7.51% ownership interest in Peach Bottom Atomic Power Station (Peach Bottom) from Atlantic City Electric Company

F-19

(ACE) and Delmarva Power & Light Company (DPL) for \$18 million. With the purchase of the additional ownership interest in Peach Bottom, Exelon Generation received a transfer of \$47 million representing ACE and DPL's decommissioning trust funds and the related liability for the station. As a result of the restructuring, the purchase agreement has been assigned to Exelon Generation. DPL's 3.755% interest was purchased in December 2000 by PECO and transferred to Exelon Generation as part of the restructuring. The purchase of ACE's 3.755% ownership interest was completed in October 2001.

**7. Nuclear Decommissioning and Spent Fuel Storage****Nuclear Decommissioning**

Exelon Generation has an obligation to decommission its nuclear power plants. Exelon Generation's current estimate of its nuclear facilities' decommissioning cost for its owned nuclear plants is \$7.2 billion in current year (2002) dollars. Nuclear decommissioning activity occurs primarily after the plants retirement and is currently estimated to begin in 2031. Exelon Generation's Zion Station permanently ceased power generation operations in 1998. The plant is currently being maintained in a secure and safe condition until final decommissioning, which is scheduled to begin in 2013. Decommissioning costs are currently recoverable through the regulated rates of ComEd and PECO. Exelon Generation collected \$102 million in 2001 from ComEd and PECO. At December 31, 2001, the decommissioning liability recorded in accumulated depreciation and deferred credits and other liabilities was \$2.7 billion and \$1.3 billion, respectively. At December 31, 2000, the decommissioning liability recorded in Accumulated Depreciation and deferred credits and other liabilities was \$2.6 billion and \$1.3 billion, respectively. In order to fund future decommissioning costs, at December 31, 2001 and 2000, Exelon Generation held \$3.2 billion and \$3.1 billion, respectively, in trust accounts which are included as investments in Exelon Generation's Consolidated Balance Sheets at their fair market value. These trust funds are either qualified or non-qualified. Section 468A of the Internal Revenue Code limits the amount of money that can be contributed into a "qualified fund." Contributions made into a qualified fund are tax deductible. Exelon Generation believes that the amounts being recovered from customers through regulated rates and earnings on nuclear decommissioning trust funds will be sufficient to fully fund its decommissioning obligations.

In connection with the transfer by ComEd of its nuclear generating stations to Exelon Generation, ComEd asked the Illinois Commerce Commission (ICC) to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the power purchase agreements between ComEd and Exelon Generation. Under the ICC order, ComEd is permitted to recover \$73 million per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd can recover up to \$73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Exelon Generation. Under the ICC order, subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to customers. The ICC order is currently pending on appeal in the Illinois Appellate Court.

Exelon Generation recorded a receivable from ComEd of approximately \$440 million representing ComEd's legal requirement to remit funds to Exelon Generation upon collection from customers, and

F-20

for collections from customers prior to the establishment of external decommissioning trust funds in 1989 to be remitted to Exelon Generation for deposit into the decommissioning trusts through 2006. Unrealized gains and losses on decommissioning trust funds (based on the market value of the assets on the Merger date, in accordance with purchase accounting) had previously been recorded in accumulated depreciation. As a result of the transfer of the ComEd nuclear plants to Exelon Generation and the ICC order limiting the regulated recoveries of decommissioning costs, net unrealized losses of \$23 million (net of income taxes) at that date were reclassified to accumulated other comprehensive income. All subsequent realized gains and losses on these decommissioning trust funds' assets are based on the cost basis of the trust fund assets established on the Merger date and are reflected in Other Income and Deductions in Exelon Generation's Consolidated Statements of Income.

Nuclear decommissioning costs associated with the nuclear generating stations formerly owned by PECO continue to be recovered currently through rates charged by PECO to regulated customers these amounts are remitted to Exelon Generation as allowed by the Pennsylvania Public Utility Commission.

**Spent Fuel Storage**

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste (SNF). ComEd and PECO, as required by the NWPA, each signed a contract with the DOE (Standard Contract) to provide for disposal of SNF from their respective nuclear generating stations. In accordance with the NWPA and the Standard Contract, ComEd and PECO pay the DOE one mill (\$.001) per kilowatt-hour of net nuclear generation for the cost of nuclear fuel long-term storage and disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contract required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 1998. The DOE, however, failed to meet that deadline and its performance is expected to be delayed significantly. The DOE's current estimate for opening an SNF facility is 2010. This extended delay in SNF acceptance by the DOE has led to Exelon Generation's use of dry storage at its Dresden and Peach Bottom Units and its consideration of dry storage at other units.

In July 2000, PECO entered into an agreement with the DOE relating to Peach Bottom nuclear generating unit to address the DOE's failure to begin removal of SNF in January 1998 as required by the Standard Contract. Under that agreement, the DOE agreed to provide credits against future contributions to the Nuclear Waste Fund over the next ten years to compensate for SNF storage costs incurred as a result of the DOE's breach of the contract. The agreement also provides that the DOE will take title to the SNF upon request and the interim storage facility at Peach Bottom provided certain conditions are met.

In November 2000, eight utilities with nuclear power plants filed a Joint Petition for Review against the DOE with the United States Court of Appeals for the Eleventh Circuit seeking to invalidate that portion of the agreement providing for credits against nuclear waste fund payments on the ground that such provision is a violation of the NWPA. PECO intervened as a defendant in that case, which is ongoing. In April, 2001, an individual filed suit against the DOE with the United States District Court for the Middle District of Pennsylvania seeking to invalidate the agreement on the grounds that the DOE has violated the National Environmental Policy Act and the Administrative Procedure Act. PECO

F-21

intervened as a defendant and moved to dismiss the complaint. The Court has not yet ruled on the motion to dismiss.

The Standard Contract with the DOE also requires that PECO and ComEd pay the DOE a one-time fee applicable to nuclear generation through April 6, 1983. PECO's fee has been paid. Pursuant to the Standard Contract, ComEd elected to defer payment of the one-time fee of \$277 million, with interest accruing to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2001, the liability for the one-time fee with interest was \$843 million.

The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Exelon Generation as part of the corporate restructuring.

## 8. Long-Term Debt

Long-term debt is comprised of the following:

	Rates	Maturity Date	December 31,	
			2001	2000
Notes payable	7.25%	2003-2004	\$ 9	\$ 14
Senior unsecured notes	6.95%	2011	699	—
Pollution control notes	2.10%—2.70%	2016-2034	317	195
<b>Total long-term debt</b>			<b>1,025</b>	<b>209</b>
Due within one year			(4)	(4)
<b>Long-term debt</b>			<b>\$ 1,021</b>	<b>\$ 205</b>

Long-term debt maturities in the period 2002 through 2006 and thereafter are as follows:

2002	\$ 4
2003	4
2004	1
2005	—
2006	—
Thereafter	1,016
	<b>\$ 1,025</b>

In May 2001, Exelon Generation entered into a forward-starting interest rate swap, with an aggregate notional amount of \$700 million, to hedge the interest rate risk related to the anticipated issuance of debt. On June 11, 2001, Exelon Generation issued \$700 million of senior unsecured notes with a maturity date of June 15, 2011 and an interest rate of 6.95% and closed the forward-starting interest rate swap. The aggregate loss on the settlement of the swap of \$2 million, net of related income taxes, was classified in Accumulated Other Comprehensive Income and is being amortized to interest expense over the life of the debt.

F-22

Also during 2001, Exelon Generation issued \$121 million of Pollution Control Revenue Refunding Bonds at an average variable commercial paper interest rate of 2.685% with maturities of 20 to 33 years. The proceeds from these offerings were used to refund tax-exempt debt previously issued by PECO. The transaction was accounted for as a distribution to the member.

Exelon Generation, together with Exelon, ComEd and PECO, entered into a \$1.5 billion 364 day unsecured revolving credit facility on December 12, 2001 with a group of banks. As of December 31, 2001, Exelon Generation did not meet the requirements to borrow under this facility.

## 9. Income Taxes

Income tax expense (benefit) is comprised of the following components for the years ended December 31:

	2001	2000	1999
Included in operations:			
Federal:			
Current	\$ 253	\$ 177	\$ 92
Deferred	15	(38)	18
Investment tax credit, net	(8)	(13)	(12)
State:			
Current	51	43	22
Deferred	16	(9)	5
	<b>\$ 327</b>	<b>\$ 160</b>	<b>\$ 125</b>

Included in cumulative effect of a change in accounting principle:

Federal—deferred  
State—deferred

\$	6	\$	—	\$	—
	1		—		—
\$	7		—		—

The effective income tax rate differed from the Federal statutory rate for the years ended December 31 principally due to the following:

	2001	2000	1999
Income taxes on above at Federal statutory rate of 35%	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State income taxes, net of Federal income tax benefit	5.2%	5.0%	5.2%
Nuclear decommissioning trust income	(0.6)%	0.0%	—
Amortization of investment tax credit	(0.6)%	(1.9)%	(2.1)%
Other, net	—	—	(0.1)%
Effective income tax rate	39.0%	38.1%	38.0%

F-23

The tax effect of temporary differences giving rise to Exelon Generation's deferred tax assets and liabilities as of December 31, 2001 and 2000 are presented below:

	2001	2000
Deferred tax assets:		
Decommissioning and decontamination obligations	\$ 856	\$ 455
Deferred pension and postretirement obligations	236	227
Deferred investment tax credits	93	96
Other, net		110
Total deferred tax assets	1,185	888
Deferred tax liabilities:		
Plant basis difference	(709)	(397)
Unrealized gains on derivative financial instruments	(30)	—
Decommissioning and decontamination obligations	(100)	(118)
Emission allowances	(44)	(36)
Other, net	(12)	—
Total deferred tax liabilities	(895)	(551)
Deferred income taxes net on the balance sheet	\$ 290	\$ 337

Prior to 2001, the offsetting deferred tax assets and liabilities resulting from decommissioning and decontamination assets and obligations, accounted for as regulatory assets and liabilities, were recorded within the plant basis difference caption above. As a result of the corporate restructuring, on January 1, 2001, the decommissioning and decontamination obligations were transferred to Exelon Generation. The deferred tax asset related to the decommissioning and decontamination obligation is no longer recorded in the plant basis difference caption with the regulatory assets and liabilities.

Included in accrued expenses on Exelon Generation's consolidated balance sheets at December 31, 2001 and 2000 was approximately \$245 and \$334 million current taxes payable due to the member.

The Internal Revenue Service and certain state tax authorities are currently auditing certain tax returns of Exelon's predecessor entities, Unicom and PECO. The current audits are not expected to have an adverse effect on financial condition or results of operations of Exelon Generation.

## 10. Employee Benefits

Exelon Generation has adopted defined benefit pension plans and postretirement welfare plans sponsored by Exelon. All Exelon Generation employees are eligible to participate in these plans. Essentially all Exelon Generation management employees, and electing union employees, hired on or after January 1, 2001 are eligible to participate in the newly established Exelon cash balance pension plan. Management employees who were active participants in the pension plans on December 31, 2000 and remain employed on January 1, 2002, will have the opportunity to continue to participate in the pension plans or to transfer to the cash balance plan. Benefits under these pension plans generally reflect each employee's compensation, years of service, and age at retirement. Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax

F-24

purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended. The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of Exelon Generation's proportionate interest in the Exelon plans.

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
Change in Benefit Obligation:				
Net benefit obligation at beginning of year	\$ 2,757	\$ 893	\$ 1,144	\$ 351
Service cost	37	17	17	11
Interest cost	166	91	70	33
Plan participants' contributions	—	—	2	—
Plan amendments	19	—	(105)	—
Actuarial (gain)loss	102	102	72	77
Acquisitions	—	1,689	—	670
Curtailments/Settlements	(16)	(32)	—	2
Special accounting costs	13	90	2	25
Gross benefits paid	(202)	(93)	(70)	(25)
Net benefit obligation at end of year	\$ 2,876	\$ 2,757	\$ 1,132	\$ 1,144



Change in Plan Assets:				
Fair value of plan assets at beginning of year	\$ 2,908	\$ 1,296	\$ 635	\$ 108
Actual return on plan assets	(111)	82	(7)	(6)
Employer contributions	14	1	40	40
Plan participants' contributions	—	—	2	1
Acquisitions	—	1,622	—	517
Gross benefits paid	(202)	(93)	(70)	(25)
Fair value of plan assets at end of year	\$ 2,609	\$ 2,908	\$ 600	\$ 635
Funded status at end of year	\$ (267)	\$ 151	\$ (532)	\$ (509)
Miscellaneous adjustment	—	—	—	3
Unrecognized net actuarial (gain)loss	110	(347)	207	75
Unrecognized prior service cost	46	33	(105)	—
Unrecognized net transition obligation (asset)	(7)	(9)	46	54
Net amount recognized at end of year	\$ (118)	\$ (172)	\$ (384)	\$ (377)

F-25

	Pension Benefits			Other Postretirement Benefits					
	2001	2000	1999	2001	2000	1999			
Weighted-average assumptions as of December 31,									
Discount rate	7.35%	7.60%	8.00%	7.35%	7.60%	8.00%			
Expected return on plan assets	9.50%	9.50%	9.50%	9.50%	8.00%	8.00%			
Rate of compensation increase	4.00%	4.30%	5.00%	4.00%	4.30%	5.00%			
Health care cost trend on covered charges	N/A	N/A	N/A	10.00%	7.00%	8.00%			
				decreasing to ultimate trend of 4.5% in 2008	decreasing to ultimate trend of 5.0% in 2005	decreasing to ultimate trend of 5.0% in 2006			
				Pension Benefits		Other Postretirement Benefits			
				2001	2000	1999	2001	2000	1999
Components of net periodic benefit cost (benefit):									
Service cost				\$ 37	\$ 17	\$ 13	\$ 17	\$ 11	\$ 8
Interest cost				166	91	65	70	33	20
Expected return on assets				(215)	(131)	(94)	(46)	(15)	(6)
Amortization of:									
Transition obligation (asset)				(2)	(2)	(2)	4	4	4
Prior service cost				4	3	2	(5)	—	—
Actuarial (gain) loss				(11)	(11)	(3)	—	—	—
Curtailed charge (credit)				(6)	(5)	—	4	10	—
Settlement charge (credit)				(3)	(7)	—	—	—	—
Net periodic benefit cost (benefit)				\$ (30)	\$ (45)	\$ (19)	44	43	26
Special accounting costs				\$ 13	\$ 90	\$ —	\$ 2	\$ 25	\$ —
Sensitivity of retiree welfare results									
Effect of a one percentage point increase in assumed health care cost trend on total service and interest cost components on postretirement benefit obligation							\$ 15		
Effect of a one percentage point decrease in assumed health care cost trend on total service and interest cost components on postretirement benefit obligation							\$ (12)		
							\$ (117)		

F-26

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

Special accounting costs in 2000 of \$90 million include \$42 million for separation benefits and \$48 million for plan enhancements. Exelon Generation provides certain health care and life insurance benefits for retired employees through plans sponsored by Exelon. In 2001, Exelon amended the postretirement medical benefit plan to change the eligibility requirement of the plan to cover only employees who retire with 10 years of service after age 45 rather than with 10 years of service and having attained the age of 55. Welfare benefits for active employees are provided by several insurance policies or self-funded plans whose premiums or contributions are based upon the benefits paid during the year.

Exelon Generation has savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pretax income in accordance with specified guidelines. Exelon Generation matches a percentage of the employee contribution up to certain limits. The cost of Exelon Generation's matching contribution to the savings plans totaled \$15 million in 2001.

Exelon Generation participates in a 401(k) Savings Plan for Employees sponsored by Exelon. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. Exelon Generation matches a percentage of employee contributions to the plan up to certain limits. Exelon Generation expensed matching contributions to the plan totaling \$23 million for 2001, \$7 million for 2000 and \$3 million for 1999.

## II. Commitments and Contingent Liabilities

### Capital Expenditures

Generation's estimated capital expenditures for 2002 are as follows:

	(in millions)
Production Plant	\$ 392
Nuclear Fuel	432
Investments	254

Capital expenditures for production include expenditures to increase capacity of existing plants.

### Capital Commitments

Exelon Generation has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2002 and Exelon Generation and British Energy have each agreed to provide up to \$100 million to AmerGen at any time for operating expenses.

F-27

### Pending Acquisition

In December 2001, Exelon Generation agreed to purchase two generation plants located in the Dallas-Fort Worth metropolitan area from TXU Corp. (TXU) to expand its presence in the Texas region. The \$443 million purchase (not included in above table) of the two natural-gas and oil-fired plants, to be funded through available cash and commercial paper proceeds, will add approximately 2,300 megawatts (MW) capacity. The transaction includes a power purchase agreement for TXU to purchase power during the months of May through September from 2002 through 2006. During the periods covered by the power purchase agreement, TXU will make fixed capacity payments and will provide fuel to Exelon Generation in return for exclusive rights to the energy and capacity of the generation plants. The closing of the acquisition is contingent upon receipt of the necessary regulatory approvals and is anticipated to occur in the second quarter of 2002.

### Nuclear Insurance Coverages and Assessments

The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. The current limit is \$9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. Exelon Generation carries the maximum available commercial insurance of \$200 million and the remaining \$9.3 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to \$89 million per reactor per incident, payable at no more than \$10 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims. Price-Anderson is scheduled to expire on August 1, 2002. Although replacement legislation has been proposed from time to time, Exelon Generation is unable to predict whether replacement legislation will be enacted.

Exelon Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Exelon Generation is required by the NRC to maintain, to provide for decommissioning the facility. Exelon Generation is unable to predict the timing of the availability of insurance proceeds to Exelon Generation and the amount of such proceeds which would be available. Under the terms of the various insurance agreements, Exelon Generation could be assessed up to \$121 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of \$3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity, and any other source, applicable to such losses.

Additionally, Exelon Generation is a member of an industry mutual insurance company that provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Exelon Generation's maximum share of any assessment is \$46 million per year.

F-28

In addition, Exelon Generation participates in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear-related employment" began on or after the commencement date of reactor operations. Exelon Generation will not be liable for a retrospective assessment under this new policy. However, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to \$50 million could apply.

Exelon Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon Generation's financial condition and results of operations.

### Energy Commitments

Exelon Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long, intermediate and short-term contracts. Exelon Generation maintains a net positive supply of energy and capacity, through ownership of generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generation units. Exelon Generation has also contracted for access to additional generation through bilateral long-term power purchase agreements. These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature—similar to asset ownership. Exelon Generation enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. Exelon Generation has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The intent and business objective for the use of its capital assets and contracts are to provide Exelon Generation with physical power supply to enable it to deliver energy to meet customer needs. Exelon primarily uses financial contracts in its wholesale marketing activities for hedging purposes. Exelon also uses financial contracts to manage the risk surrounding trading for profit activities.

Exelon Generation has entered into bilateral long-term contractual obligations for sales of energy to ComEd, PECO and other load-serving entities, including electric utilities, municipalities, electric cooperatives, and retail load aggregators. Exelon Generation also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. Exelon Generation provides delivery of its energy to these customers through rights for firm transmission. In addition, Exelon Generation has entered into long-term power purchase agreements with independent power producers (IPP) under which Exelon Generation makes fixed capacity payments to the IPP in return for exclusive rights to the energy and capacity of the generation units for a fixed period.

F-29

At December 31, 2001, Exelon Generation's long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from affiliated and unaffiliated entities are as expressed in the following tables:

	Unaffiliated				Affiliated	
	Power Purchases	Power Sales	Capacity Purchases	Transmission Rights Purchases	Power Sale/ Capacity	Power Purchases
2002	\$ 295	\$ 1,803	\$ 1,005	\$ 139	\$ 4,047	\$ 256
2003	84	666	1,214	31	4,220	261
2004	31	219	1,222	15	4,094	315
2005	23	139	406	15	4,018	241
2006	9	58	406	5	3,974	241
Thereafter	150	22	3,657	—	6,207	2,171
Total	\$ 592	\$ 2,907	\$ 7,910	\$ 205	\$ 26,560	\$ 3,485

Included in Exelon Generation's long-term commitments are PPAs with Midwest Generation, LLC Midwest Generation for the purchase of capacity from its coal fired stations, in declining amounts through 2004. Contracted capacity and capacity available through the exercise of an annual option are as follows (in megawatts):

	Contracted Capacity	Available Option Capacity
2002	4,013	1,632
2003	1,696	3,949
2004	1,696	3,949

The agreements with Midwest Generation also provide for the option to purchase 2,698 megawatts of oil and gas-fired capacity, and 944 megawatts of peaking capacity, subject to reduction.

Exelon Generation has entered into PPAs with AmerGen, under which it will purchase all the energy from Unit No. 1 at TMI after December 31, 2001 through December 31, 2014. Under a 1999 PPA, Generation will purchase from AmerGen all of the residual energy from Clinton through December 31, 2002. Currently, the residual output approximates 25% of the total output of the Clinton facility.

#### Environmental Issues

Exelon Generation's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, Exelon Generation is generally liable for the costs of remediating environmental contamination of property now owned and of property contaminated by hazardous substances generated by Exelon Generation.

F-30

As of December 31, 2001, Exelon Generation had accrued \$14 million for environmental investigation and remediation costs. Exelon Generation cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by Exelon Generation, environmental agencies or others, or whether such costs will be recoverable from third parties.

#### Leases

Minimum future operating lease payments, including lease payments for real estate, rail cars and office equipment, as of December 31, 2001 were:

2002	\$ 28
2003	37
2004	26
2005	32
2006	32
Thereafter	527
Total minimum future lease payments	<u>\$ 682</u>

Rental expense under operating leases totaled \$29 million \$19 million and \$18 million for the year ended December 31, 2001, 2000 and 1999, respectively.

#### Litigation

*Cajun Electric Power Cooperative, Inc.* On May 27, 1998, the United States Department of Justice, on behalf of the Rural Utilities Service and the Chapter 11 Trustee for the Cajun Electric Power Cooperative, Inc. (Cajun), filed an action claiming breach of contract against PECO in the United States District Court for the Middle District of Louisiana arising out of PECO's termination of the contract to purchase Cajun's interest in the River Bend nuclear power plant. Effective with the corporate restructuring, Exelon Generation has agreed to assume any liability and obligation arising from this litigation. During 2001, the parties reached a settlement of the dispute, and Exelon Generation made a payment of \$14 million to Cajun.

*Cotter Corporation.* 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. In 1994, a federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately \$6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was completed on June 28, 2001. The jury returned a verdict against Cotter and

F-31

awarded \$16.3 million in various damages. On November 20, 2001, the District Court entered an amended final judgment which included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses which total \$43.3 million. This matter is being appealed by Cotter in the Tenth Circuit Court of Appeals. Cotter will vigorously contest the award.

In November 2000, another trial involving a separate sub-group of 13 plaintiffs, seeking \$19 million in damages plus interest was completed in federal district court in Denver. The jury awarded nominal damages of \$42,500 to 11 of 13 plaintiffs, but awarded no damages for any personal injury or health claims, other than requiring Cotter to perform periodic medical monitoring at minimal cost. The plaintiffs appealed the verdict to the Tenth Circuit Court of Appeals.

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.

The United States 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), is reviewing a draft feasibility study that recommends capping 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 are \$10 to \$15 million. Once a final feasibility study is complete and a remedy selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Exelon Generation cannot predict its share of the costs.

In connection with the corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred to Exelon Generation. Management believes it has established an adequate contingent liability in connection with these proceedings.

*Godley Park District Litigation.* On April 18, 2001, the Godley Park District filed suit in Will County Circuit Court against ComEd and Exelon alleging that oil spills at Braidwood Station have contaminated the Park District's water supply. The complaint sought actual damages, punitive damages of \$100 million and statutory penalties. The court dismissed all counts seeking punitive damages and statutory penalties, and the plaintiff has filed an amended complaint before the court. Exelon Generation is contesting the liability and damages sought by plaintiff.

*Pennsylvania Real Estate Tax Appeals.* Exelon Generation is involved in tax appeals regarding two of its nuclear facilities, Limerick (Montgomery County) and Peach Bottom (York County) and one of its fossil facilities, Eddystone (Delaware County), Exelon is also involved in the appeal for TMI (Dauphin County) through AmerGen. Exelon Generation does not believe the outcome of

these matters will have a material adverse effect on Exelon Generation's results of operations or financial condition.

*Enron.* Exelon Generation is an unsecured creditor in Enron Corp.'s (Enron) bankruptcy proceeding. Exelon Generation's claim for power and other products sold to Enron in November and early December 2001 is \$8.5 million. Enron may assert that Exelon Generation should not have closed

F-32

out and terminated all of its forward contracts with Enron. If Enron is successful in this argument, Exelon Generation's exposure could be greater than \$8.5 million. Exelon Generation may also be subject to exposure due to the credit policies of ISO-operated spot markets that allocate defaults of market participants to non-defaulting participants. Exelon Generation has established an allowance for uncollectibles in anticipation of resolution of these matters.

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

## 12. Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of Exelon Generation's financial assets and liabilities as of December 31 were as follows:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Non-derivatives</b>				
Assets:				
Cash and cash equivalents	\$ 224	\$ 224	\$ 4	\$ 4
Customer accounts receivable	316	316	316	316
Nuclear decommissioning trust funds	3,165	3,165	3,127	3,127
Liabilities:				
Long-term debt (including amounts due within one year)	1,025	1,040	209	209
<b>Derivatives</b>				
Energy Derivatives	92	92	(34)	(34)

As of December 31, 2001 and 2000, Exelon Generation's carrying amounts of cash and cash equivalents and accounts receivable are representative of fair value because of the short-term nature of these instruments. Fair values of the trust accounts for decommissioning nuclear plants and long-term debt are estimated based on quoted market prices for the same or similar issues. The fair value of Exelon Generation's and power purchase and sale contracts is determined using quoted exchange prices, external dealer prices, or internal valuation models which utilize assumptions of future energy prices and available market pricing curves. The fair value of Exelon Generation's energy derivatives is reported in the balance sheet as current or non-current assets or liabilities depending on the time until settlement of the transaction. At December 31, 2001, the following amounts were reported in Exelon Generation's consolidated balance sheet for the fair value of energy derivatives: accounts receivable of \$109 million; other non-current assets of \$62; accounts payable of \$71; and non-current liabilities of \$8.

Financial instruments that potentially subject Exelon Generation to concentrations of credit risk consist principally of cash equivalents, customer accounts receivable and energy derivatives. Exelon Generation places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits.

F-33

Exelon Generation utilizes derivatives to manage the utilization of its available generating capacity and provision of wholesale energy to its affiliates. Exelon Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Exelon Generation enters into certain energy-related derivatives for trading or speculative purposes. Exelon Generation would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. The majority of power purchase and sale contracts are documented under master netting agreements.

On January 1, 2001, Exelon Generation recognized a non-cash gain of \$12 million, net of income taxes, in earnings and deferred a non-cash gain of \$5 million, net of income taxes, in accumulated other comprehensive income, a component of shareholders' equity, to reflect the initial adoption of SFAS No. 133, as amended. SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges.

During 2001, Exelon Generation recognized net gains of \$16 million (\$10 million, net of income taxes) relating to mark-to-market (MTM) adjustments of certain non-trading power purchase and sale contracts pursuant to SFAS No. 133. MTM adjustments on power purchase contracts are reported in fuel and purchased power and MTM adjustments on power sale contracts are reported as Operating Revenues in the Consolidated Statements of Income. During 2001, Exelon Generation recognized net gains aggregating \$14 million (\$10 million, net of income taxes) on derivative instruments entered into for trading purposes. Exelon Generation commenced financial trading in the second quarter of 2001. Gains and losses associated with financial trading are reported as either operating revenue or fuel and purchased power expense in the Consolidated Statements of Income. During 2001, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted energy commodity transactions no longer being probable.

As of December 31, 2001, approximately \$50 million of deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months. Amounts in accumulated other comprehensive income related to interest rate cash flows are reclassified into earnings when the forecasted interest payment occurs. Amounts in accumulated other comprehensive income related to energy commodity cash flows are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs. The majority of Exelon Generation's cash flow hedges are expected to settle within the next 3 years.

F-34

Exelon Generation classifies investments in the trust accounts for decommissioning nuclear plants as available-for-sale. The following tables show the fair values, gross unrealized gains and losses and amortized costs bases for the securities held in these trust accounts.

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	\$ 1,666	\$ 130	\$ (236)	\$ 1,560
Debt securities:				
Government obligations	882	28	(3)	907
Other debt securities	701	16	(19)	698
Total debt securities	1,583	44	(22)	1,605

Total available-for-sale securities	\$ 3,249	\$ 174	\$ (258)	\$ 3,165
December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	\$ 1,712	\$ 144	\$ (180)	\$ 1,676
Debt securities:				
Government obligations	940	40	—	980
Other debt securities	470	8	(7)	471
Total debt securities	1,410	48	(7)	1,451
Total available-for-sale securities	\$ 3,122	\$ 192	\$ (187)	\$ 3,127

Net unrealized losses of \$84 million and net unrealized gains of \$5 million, respectively, were recognized in Accumulated Depreciation and Other Comprehensive Income in Exelon Generation's Consolidated Balance Sheets at December 31, 2001 and 2000, respectively.

	For the years ended December 31,	
	2001	2000
Proceeds from sales	\$ 1,624	\$ 265
Gross realized gains	76	9
Gross realized losses	(189)	(46)

Net realized gains of \$14 million and net realized losses of \$37 million were recognized in Accumulated Depreciation in Exelon Generation's Consolidated Balance Sheets at December 31, 2001 and 2000, respectively, and \$127 million of net realized losses was recognized in Other Income and Deductions in Exelon Generation's Consolidated Income Statements for 2001. The available-for-sale securities held at December 31, 2001 have an average maturity of eight to ten years.

F-35

### 13. Selected Quarterly Data (Unaudited)

The information shown below, in the opinion of management, includes all adjustments, consisting only of normal or recurring accruals, necessary to a fair presentation of such amounts. Due to the seasonal nature of the generation business, quarterly amounts vary significantly during the year.

	Calendar Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	2001	2000	2001	2000	2001	2000	2001	2000
Revenues	\$ 1,628	\$ 510	\$ 1,618	\$ 645	\$ 2,292	\$ 941	\$ 1,510	\$ 1,178
Operating income	\$ 268	\$ 70	\$ 113	\$ 140	\$ 225	\$ 228	\$ 266	\$ 3
Income before cumulative effect of change in accounting principle	\$ 158	\$ 88	\$ 71	\$ 147	\$ 167	\$ 164	\$ 116	(\$ 139)
Cumulative effect of a change in accounting principle	\$ 12	—	—	—	—	—	—	—
Net income (loss)	\$ 170	\$ 88	\$ 71	\$ 147	\$ 167	\$ 164	\$ 116	(\$ 139)

### 14. Related Party Transactions

#### Exelon Corporation

At December 31, 2000, Exelon Generation had a \$696 million demand note payable, that was due no later than December 16, 2001, with Exelon related to the acquisition of Sithe, which was reflected in current liabilities in Exelon Generation's Consolidated Balance Sheet. Interest expense on the note payable was \$23 million and \$2 million for the years ended December 31, 2001 and 2000. The loan was repaid in full in June 2001.

#### Exelon Corporate Restructuring

At December 31, 2001, Exelon Generation had a long-term receivable of \$291 million from ComEd resulting from the restructuring which is included in deferred debits and other assets, on Exelon Generation's consolidated balance sheet. This receivable represents ComEd's legal requirement to remit the recovery of decommissioning costs upon collection from the customers.

#### Exelon Business Service Company

Effective January 1, 2001, upon the corporate restructuring, Exelon Generation receives a variety of corporate support services from the Business Services Company (BSC), a subsidiary of Exelon, including executive management, legal, human resources, financial and information technology services. Such services are provided at cost including applicable overheads. Costs charged to Exelon Generation by BSC for the year ended December 31, 2001 were \$78 million.

#### Power Purchase Agreements with ComEd and PECO

In connection with the restructuring transaction, ComEd and PECO entered into PPAs with Exelon Generation. Under the PPA between Exelon Generation and ComEd, Exelon Generation supplies all of ComEd's load requirements through 2004. Prices for energy vary depending upon the time of day and month of delivery, as specified in the PPA. During 2005 and 2006, ComEd will purchase energy and capacity from Exelon Generation, up to the available capacity of the nuclear

F-36

generation plants formerly owned by ComEd and transferred to Exelon Generation. Under the terms of the PPA with ComEd, Exelon Generation is responsible for obtaining the required transmission for its supply. The PPA with ComEd also specifies that prior to 2005, ComEd and Exelon Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating its PPA effective December 31, 2004.

Exelon Generation has also entered into a PPA with PECO whereby Exelon Generation will supply all of PECO's load requirements through 2010. Prices for energy are equivalent to the net proceeds from sales of unbundled generation to PECO's provider of last resort customers at rates PECO is allowed to charge customers who do not choose an alternate generation supplier. Under the terms of PPA, PECO is responsible for obtaining the required transmission for its supply.

Intercompany power purchases pursuant to the PPAs for the year ended December 31, 2001 for ComEd and PECO were \$2.6 billion and \$1.2 billion, respectively. Prior to the restructuring, Exelon Generation recorded revenues of \$871 million and \$798 million related to sales of energy to PECO for 2000 and 1999, respectively. During 2000, Exelon Generation recorded revenue of \$403 million related to sales of energy to ComEd.

## AmerGen

Exelon Generation has entered into a PPA dated November 22, 1999 with AmerGen. Under this PPA, Exelon Generation has agreed to purchase from AmerGen all of the residual energy from the Clinton Power Station through December 31, 2002. Currently, the residual output approximates 25% of the total output of the Clinton Power Station. For the years ended December 31, 2001 and 2000, the amount of purchased power recorded in Consolidated Statements of Income is \$57 million and \$52 million, respectively. As of December 31, 2001 and 2000, Exelon Generation had a payable of \$3.1 million and \$2.9 million, respectively, resulting from this PPA.

In addition, under a service agreement dated March 1, 1999, Exelon 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 Exelon Generation or by AmerGen on 90 days' notice. Exelon Generation is compensated for these services in an amount agreed to in the work order but not less than the higher of the fully allocated costs for performing the services or the market price. For the years ended December 31, 2001, 2000 and 1999, the amount charged to AmerGen for these services was \$80 million, \$32 million and \$1 million respectively. As of December 31, 2001 and 2000, Exelon Generation had a receivable of \$47 million and \$20 million respectively resulting from these services.

In February 2002, Exelon Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate of one-month LIBOR plus 2.25%. As of March 1, 2002, AmerGen had borrowed \$30 million under this agreement. The loan is due November 1, 2002.

## Sithe Energies, Inc.

In August 2001, Exelon Generation recorded a \$150 million note receivable from Sithe. Sithe used the proceeds from the note to repay its subordinated debt. The note has a maturity date of August 20,

F-37

2004 and an interest rate of the Eurodollar rate, plus 2.25%. Sithe repaid this note in December 2001. For the year ended December 31, 2001, Exelon recorded \$2.7 million of interest income on the note.

Beginning December 18, 2002, we will have the right to purchase all (but not less than all) of the remaining outstanding shares of the Sithe common stock. The option expires on December 18, 2005. In addition, each of Sithe's other stockholder groups will have the right to require us to purchase all (but not less than all) of its shares during the same period in which we can exercise our option. At the end of that period, if no stockholder has exercised its option, we will have a one-time option to purchase shares from the other stockholders to bring our holdings to 50.1% of the total outstanding shares. If we exercise our option or if all the stockholder groups exercise their put rights, the purchase price for 70% of the remaining 50.1% of the Sithe stock will be set at a fair market value plus a 10% premium in the case of a call or 10% discount in the case of a put, subject to a floor of \$430 million and a ceiling of \$650 million, and the remaining portion will be valued at fair market value subject to floor price of \$141 million and a ceiling price of \$330 million, plus, in each case, interest accrued from the beginning of the exercise period.

## 15. Change in Accounting Estimate

Effective April 1, 2001, Exelon Generation changed its accounting estimates related to the depreciation and decommissioning of certain generating stations. The estimated service lives were extended by 20 years for three nuclear stations, by periods of up to 20 years for certain fossil stations and by 50 years for a pumped storage station. Effective July 1, 2001, the estimated service lives were extended by 20 years for the remainder of Exelon Generation's operating nuclear stations. These changes were based on engineering and economic feasibility studies performed by Exelon Generation considering, among other things, future capital and maintenance expenditures at these plants. The extension of the estimated service lives for the nuclear generating facilities is subject to approval by the NRC. As a result of the change, depreciation and decommissioning expense for 2001 decreased \$90 million (\$54 million, net of income taxes). At the end of the year, annualized savings resulting from the change would be a decrease of \$132 million (\$79 million, net of income taxes).

## 16. Supplemental Financial Information

### Supplemental Balance Sheet Information

	December 31,	
	2001	2000
<b>Valuation Allowances</b>		
Allowance for Doubtful Accounts	\$ 17	\$ 2
Reserve for inventory obsolescence	\$ 12	\$ 79
<b>Accumulated Amortization</b>		
Nuclear Fuel	\$ 1,838	\$ 1,445

F-38

### Supplemental Income Statement Information

	For the Years Ended December 31,		
	2001	2000	1999
Taxes Other than Income			
Real Estate	\$ 94	\$ 32	\$ 18
Payroll	38	27	16
Other	17	5	3
Total	\$ 149	\$ 64	\$ 37
Other, Net			
Investment Income	\$ (8)	\$ 14	—
Other		2	41
Total	\$ (8)	\$ 16	\$ 41

### Supplemental Cash Flow Information

	For the Years Ended December 31,		
	2001	2000	1999
Cash paid during the year:			
Interest (net of amount capitalized)	\$ 74	\$ 35	\$ 18

