UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

March 16, 2001
(Date of earliest event reported)

EXELON CORPORATION
(Exact name of registrant as specified in its charter)

| Pennsylvania | 1-16169 | 23-2990190 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (SEC file number) | (IRS Employer Identification Number) |

37th Floor, 10 South Dearborn Street
Post Office Box A-3005
Chicago, Illinois 60690-3005
(Address of principal executive offices)

Registrant's telephone number, including area code:
(312) 394-4321

Item 5. Other Events

The purpose of this Current Report is to file certain financial information regarding Exelon Corporation and Subsidiary Companies. Such financial information is set forth in the exhibits to this Current Report.

Item 7. Financial Statements and Exhibits

(c) Exhibits.

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## SIGNATURES

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

EXELON CORPORATION

/S/ Ruth Ann M. Gillis

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Ruth Ann M. Gillis
Principal Financial Officer

March 16, 2001

Exhibit 23

Consent of Independent Public Accountants

Consent of Independent Public Accountants

We hereby consent to the incorporation by reference in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (File No. 333-37082) of Exelon Corporation and Subsidiary Companies of our report dated January 30, 2001, except for Note 21 PETT Refinancing for which the date is March 1, 2001, relating to the financial statements and financial statement schedule, which report is included as an Exhibit to this Form 8-K Current Report.

PricewaterhouseCoopers LLP

Chicago, Illinois
March 16, 2001

Exhibit 99-1

Exelon Corporation and Subsidiary Companies
Selected Financial Data and Market for Registrant's Common Equity
and Related Stockholder Matters

Selected Financial Data

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Statement of Income Data: | | | | | |
| Operating Revenues | $ 7,499 | $ 5,478 | $ 5,325 | $ 4,601 | $ 4,284 |
| Operating Income | 1,527 | 1,373 | 1,268 | 1,006 | 1,249 |
| Income before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | 566 | 607 | 520 | 320 | 499 |
| Extraordinary Items (net of income taxes) | (4) | (37) | (20) | (1,834) | -- |
| Cumulative Effect of a Change in Accounting Principle | 24 | -- | -- | -- | -- |
| Net Income (Loss) | 586 | 570 | 500 | (1,514) | 499 |
| Earnings per Share (Basic): | | | | | |
| Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | $ 2.81 | $ 3.10 | $ 2.33 | $ 1.44 | $ 2.24 |
| Extraordinary Items | (0.02) | (0.19) | (0.09) | (8.24) | -- |
| Cumulative Effect of a Change in Accounting Principle | 0.12 | -- | -- | -- | -- |
| Net Income (Loss) | $ 2.91 | $ 2.91 | $ 2.24 | $ (6.80) | $ 2.24 |
| Dividends per Share | $ 0.91 | $ 1.00 | $ 1.00 | $ 1.80 | $1.755 |
| Average Shares Outstanding | 202 | 196 | 223 | 223 | 223 |

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Balance Sheet Data: | | | | | |
| Current Assets | $ 4,184 | $ 1,221 | $ 582 | $ 1,003 | $ 420 |
| Property, Plant and Equipment, net | 12,936 | 5,004 | 4,804 | 4,671 | 10,942 |
| Deferred Debits and Other Assets | 17,477 | 6,862 | 6,662 | 6,683 | 3,899 |
| Total Assets | $34,597 | $13,087 | $12,048 | $12,357 | $15,261 |
| Current Liabilities | $ 4,651 | $ 1,286 | $ 1,735 | $ 1,619 | $ 1,103 |
| Long-Term Debt | 12,958 | 5,969 | 2,920 | 3,853 | 3,936 |
| Deferred Credits and Other Liabilities | 9,143 | 3,738 | 3,756 | 3,576 | 4,982 |
| Preferred Securities of Subsidiaries | 630 | 321 | 579 | 582 | 594 |
| Shareholders' Equity | 7,215 | 1,773 | 3,058 | 2,727 | 4,646 |
| Total Liabilities and Shareholders' Equity | $34,597 | $13,087 | $12,048 | $12,357 | $15,261 |

Market for Registrant's Common Equity and Related Stockholder Matters

Exelon Corporation's (Exelon) common stock is listed on the New York Stock Exchange. The following table sets forth the high and low sales prices and closing prices for Exelon's common stock for the past two years. The information presented in the table below prior to October 20, 2000 represents PECO Energy Company.

| | 2000 | | | | 1999 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| High Price | $71.00 | $61.38 | $46.81 | $43.69 | $38.81 | $44.19 | $50.50 | $46.44 |
| Low Price | $53.88 | $40.50 | $36.56 | $33.00 | $31.50 | $35.88 | $41.88 | $35.25 |
| Close | $70.21 | $60.58 | $40.31 | $36.88 | $34.75 | $37.50 | $41.88 | $46.25 |
| Dividends | $ 0.16 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 |

Exelon had 202,312 shareholders of record of common stock as of December 31, 2000.

Exhibit 99-2

Exelon Corporation and Subsidiary Companies
Management's Discussion And Analysis Of Financial Condition And Results Of Operations

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

## General

On October 20, 2000, Exelon Corporation (Exelon) became the parent corporation for each of PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd) as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended, among PECO, Unicom Corporation (Unicom) and Exelon. Exelon issued 148 million shares of common stock and paid $507 million in cash to Unicom shareholders in connection with the merger. The merger was accounted for using the purchase method of accounting. Goodwill recorded in connection with the acquisition was $4.9 billion, which is being amortized over forty years. Exelon's results of operations consist of PECO's results of operations for each of the three years ended December 31, 2000 and Unicom's results of operations from October 20, 2000.

Exelon, through subsidiaries including PECO and ComEd, operates in three business segments:

- Energy Delivery, consisting of the retail electricity distribution and transmission businesses of ComEd in northern Illinois and PECO in southeastern Pennsylvania and the natural gas distribution business of PECO located in the Pennsylvania counties surrounding the City of Philadelphia.

- Generation, consisting of electric generating facilities, power marketing operations and equity interests in Sithe Energies, Inc. (Sithe) and AmerGen Energy Company, LLC (AmerGen).

- Enterprises, consisting of competitive retail energy sales, energy and infrastructure services, communications and related investments. Effective January 1, 2001, Enterprises will also include the operations of Exelon Energy, which were previously included in Generation.

During January 2001, Exelon undertook a restructuring to separate Exelon's generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets of ComEd and PECO were transferred to separate subsidiaries of Exelon. Restructuring will streamline the process for managing, operating and tracking financial performance of each business segment. Information is presented in this section on the basis of these segments to the extent available.

## Significant Operating Trends

| Percentage of Total Operating Revenues | | | | Percentage Dollar Changes | | |
|---|---|---|---|---|---|---|
| | | | | 2000 vs.1999 | | 1999 vs. 1998 |
| 2000 | 1999 | 1998 | | Unicom Contribution(a) | PECO | |
| 100% | 100% | 100% | Operating Revenue | 28% | 9% | 3% |
| 34% | 39% | 34% | Fuel and Purchased Power | 22% | (1%) | 19% |
| 31% | 27% | 23% | Operating and Maintenance | 38% | 23% | 21% |
| 4% | -- | -- | Merger-Related Costs | N.M. | N.M. | N.M. |
| -- | -- | 2% | Early Retirement & Separation Program | N.M. | N.M. | N.M. |
| 6% | 4% | 12% | Depreciation and Amortization | 58% | 36% | (63)% |
| 4% | 5% | 5% | Taxes Other Than Income | 32% | (10%) | (6)% |
| 79% | 75% | 76% | Total Operating Expenses | 30% | 16% | 1% |
| 21% | 25% | 24% | Operating Income | 22% | (13%) | 8% |

(a) Percentage dollar changes attributable to the operations of Unicom since its acquisition on October 20, 2000.

N.M. - not meaningful.

## Results of Operations

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

### Net Income and Earnings Per Share

Net income increased $141 million, or 23% in 2000, before giving effect to extraordinary items, the cumulative effect of a change in accounting principle and non-recurring items. Earnings per share, on the same basis, increased $0.57 per share, or 18%. Earnings per share increased less than net income because of an increase in the weighted average shares of common stock outstanding as a result of the issuance of common stock in connection with the merger, partially offset by the repurchase of common stock with the proceeds from PECO's March 1999 and May 2000 stranded cost recovery securitizations. Net income, inclusive of a $4 million extraordinary charge, a $24 million benefit for the cumulative effect of a change in accounting principle and non-recurring items relating to merger-related costs of $177 million and a writedown of a communications investment of $21 million, increased $16 million, or 3% in 2000. Earnings per share, on the same basis, were consistent with the prior year period.

Energy Delivery's results improved because of the acquisition of Unicom and favorable rate adjustments. This improvement was partially offset by lower margins due to the unplanned return of certain commercial and industrial customers, milder weather, increased depreciation and amortization expense and higher interest expense. Generation's results improved as a result of higher margins on wholesale and unregulated retail energy sales. Enterprises' results were adversely impacted by lower margins on its infrastructure services businesses, increased amortization of goodwill and costs to integrate the businesses acquired in 1999 and 2000.

Operating Revenue

| | 2000 | 1999 | $ Variance | % Variance |
|---|---|---|---|---|
| | (in millions, except percentage data) | | | |
| Energy Delivery | $4,487 | $3,265 | $1,222 | 37.4% |
| Generation | 2,089 | 2,097 | (8) | (0.4%) |
| Enterprises | 923 | 116 | 807 | 695.7% |
| | $7,499 | $5,478 | $2,021 | 36.9% |

Energy Delivery
The increase in Energy Delivery's operating revenue was attributable to higher electric revenue of $1,146 million and additional gas revenue of $76 million. The increase in electric revenue reflected $1,113 million from the operations of Unicom since the merger and $102 million from customers in Pennsylvania selecting PECO as their electric generation supplier and rate adjustments in Pennsylvania, partially offset by a decrease of $69 million as a result of lower summer volume. Regulated gas revenue reflected increases of $44 million related to higher prices, $29 million attributable to increased volume from new and existing customers and $24 million from increased winter volume. These increases were partially offset by $21 million of lower gross receipts tax collections as a result of the repeal of the gross receipts tax on gas sales in connection with gas restructuring in Pennsylvania.

Generation
The decrease in Generation's operating revenue resulted from lower electric revenue of $22 million partially offset by higher gas revenue of $14 million. The decrease in electric revenue was principally attributable to lower sales of competitive retail electric generation services of $132 million, of which $196 million represented decreased volume that was partially offset by $64 million from higher prices. In addition, the termination of the management agreement for Clinton Nuclear Power Station (Clinton) resulted in lower revenues of $99 million. As a result of the acquisition by AmerGen of Clinton in December 1999, the management agreement was terminated and, accordingly, the operations of Clinton have been included in Equity in Earnings (Losses) of Unconsolidated Affiliates on Exelon's Consolidated Statements of Income since that date. These decreases were partially offset by an increase of $209 million from higher wholesale revenue attributable to $159 million from the operations of Unicom since the merger and $199 million associated with higher prices partially offset by $149 million related to lower volume. Unregulated gas revenue increased primarily as a result of $11 million from wholesale sales of excess natural gas.

Enterprises
The increase in Enterprises' operating revenue was attributable to $530 million from the acquisition of thirteen infrastructure services companies during 2000 and 1999 and $277 million from the operations of Unicom since the merger.

Fuel and Purchased Power Expense

| | 2000 | 1999 | $ Variance | % Variance |
|---|---|---|---|---|
| | (in millions, except percentage data) | | | |
| Energy Delivery | $ 462 | $ 370 | $ 92 | 24.9% |
| Generation | 1,973 | 1,782 | 191 | 10.7% |
| Enterprises | 171 | -- | 171 | N.M. |
| | $2,606 | $2,152 | $ 454 | 21.1% |

Energy Delivery
Energy Delivery's increase in fuel and purchased power expense was primarily attributable to $73 million from additional volume and increased prices related to gas, $13 million as a result of favorable weather conditions and $4 million in lower PJM Interconnection, LLC (PJM) ancillary charges.

Generation
Generation's increase in fuel and purchased power expense was primarily attributable to $308 million from the operations of Unicom since the merger, an increase of $120 million in the cost to supply Energy Delivery and an increase of $5 million from wholesale operations principally related to $97 million as a result of increased prices partially offset by $92 million as a result of decreased volume. These increases were partially offset by lower fuel and purchased power expenses of $262 million, principally related to reduced sales of competitive retail electric generation services.

Enterprises
Enterprises' increase in fuel and purchased power expense was attributable to $171 million from the operations of Unicom since the merger. Enterprises includes the former Unicom's unregulated retail energy supplier.

Operating and Maintenance Expense

| | 2000 | 1999 | $ Variance | % Variance |
|---|---|---|---|---|
| | (in millions, except percentage data) | | | |
| Energy Delivery | $ 644 | $ 434 | $ 210 | 48.4% |
| Generation | 769 | 721 | 48 | 6.7% |
| Enterprises | 736 | 136 | 600 | 441.2% |
| Corporate | 161 | 163 | (2) | (1.2)% |
| | $2,310 | $1,454 | $ 856 | 58.9% |

Energy Delivery
Energy Delivery's increase in Operating and Maintenance (O&M) expense was primarily attributable to $153 million from the operations of Unicom since the merger and the direct charging to the business segments of O&M expenses that were previously reported at Corporate.

Generation
Generation's increase in O&M expense was primarily attributable to $153 million from the operations of Unicom since the merger partially offset by O&M expenses related to the management agreement for Clinton of $70 million in 1999, $15 million related to the abandonment of two information systems implementations in 1999, $17 million related to lower administrative and general expenses associated with the unregulated retail sales of electricity and $15 million related to lower joint-owner expenses.

Enterprises
Enterprises' O&M expense increased $505 million from the infrastructure services business as a result of acquisitions and $86 million from the operations of Unicom since the merger.

### Corporate

Corporate's O&M expense increased $155 million from the operations of Unicom since the merger, partially offset by a decrease in expenses of $56 million related to lower Year 2000 remediation expenditures, lower pension and postretirement benefits expense of $31 million and the direct charging to business segments of O&M expenses that were previously recorded at Corporate.

### Merger-Related Costs

Merger-related costs charged to expense in 2000 were $276 million consisting of $152 million of direct incremental costs and $124 million for employee costs. Direct incremental costs represent expenses associated with completing the merger, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance payments and pension and post-retirement benefits provided under Exelon's Merger Separation Plan (MSP) for 642 eligible PECO employees who are expected to be involuntarily terminated before October 2002 upon completion of integration activities for the merged companies.

### Depreciation and Amortization Expense

Depreciation and amortization expense increased $221 million, or 93%, to $458 million in 2000. The increase was primarily attributable to $134 million associated with the merger, $57 million of amortization of PECO's Competitive Transition Charges (CTC) which commenced in 2000 and $29 million related to depreciation and amortization expense associated with the infrastructure services business acquisitions.

### Taxes Other Than Income

Taxes other than income increased $60 million, or 23%, to $322 million in 2000. The increase was primarily attributable to $84 million from the operations of Unicom since the merger and a non-recurring $22 million capital stock tax credit related to a 1999 adjustment associated with the impact of the PECO's 1997 restructuring charge. These increases were partially offset by lower real estate taxes of $18 million relating to a change in tax laws for utility property in Pennsylvania and $11 million as a result of the elimination of the gross receipts tax on natural gas sales net of an increase in gross receipts tax on electric sales.

### Interest Charges

Interest charges consist of interest expense and distributions on preferred securities of subsidiaries. Interest charges increased $203 million, or 47%, to $632 million in 2000. The increase was primarily attributable to $156 million from the operations of Unicom since the merger and interest of $104 million on the transition bonds issued to securitize PECO's stranded cost recovery, partially offset by $77 million of lower interest charges as a result of the reduction of PECO's long-term debt with the proceeds from the securitization.

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

Equity in earnings (losses) of unconsolidated affiliates decreased $3 million, or 8%, to losses of $41 million in 2000 as compared to losses of $38 million in 1999. The decrease was primarily attributable to $8 million of additional losses from communications investments, partially offset by $4 million of earnings from AmerGen as a result of the acquisitions of Clinton and Three Mile Island Unit No. 1 Nuclear Generating Facility in December 1999 and Oyster Creek Nuclear Generating Facility in September 2000.

### Other Income and Deductions

Other income and deductions excluding interest charges and equity in earnings (losses) of unconsolidated affiliates decreased $6 million, or 10%, to $53 million in 2000 as compared to $59 million in 1999. The decrease in other income and deductions was primarily attributable to the writedown of a communications investment of $33 million, and a decrease in interest income of $10 million. These decreases were partially offset by a $15 million write-off in 1999 of the investment in a cogeneration facility in connection with the settlement of litigation, gains on sales of investments of $13 million and $9 million from the operations of Unicom since the merger.

Income Taxes
The effective tax rate was 37.6% in 2000 as compared to 37.1% in 1999.

Extraordinary Items
In 2000, Exelon incurred extraordinary charges aggregating $6 million ($4 million, net of tax) related to prepayment premiums and the write-off of unamortized deferred financing costs associated with the early retirement of debt with a portion of the proceeds from the securitization of PECO's stranded cost recovery in May 2000.

In 1999, Exelon incurred extraordinary charges aggregating $62 million ($37 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment and refinancing of debt.

Cumulative Effect of a Change in Accounting Principle
In 2000, Exelon recorded a benefit of $40 million ($24 million, net of tax) representing the cumulative effect of a change in accounting method for nuclear outage costs by PECO in conjunction with the synchronization of accounting policies in connection with the merger.

Year Ended December 31, 1999 Compared To Year Ended December 31, 1998

Net Income and Earnings Per Share
Net income increased $70 million, or 14%, to $570 million in 1999. Earnings per share increased $0.67 per share or 30%, to $2.91 per share in 1999. Earnings per share increased more than net income because of a decrease in the weighted average shares of common stock outstanding as a result of the repurchase of approximately 44.1 million shares with a portion of the proceeds of PECO's March 1999 stranded cost recovery securitization.

Operating Revenues

(in millions, except percentage data)

| | 1999 | 1998 | $ Variance | % Variance |
|---|---|---|---|---|
| Energy Delivery | $3,265 | $3,799 | $ (534) | (14.1%) |
| Generation | 2,097 | 1,513 | 584 | 38.6% |
| Enterprises | 116 | 13 | 103 | 792.3% |
| | $5,478 | $5,325 | $ 153 | 2.9% |

Energy Delivery
The decrease in Energy Delivery's operating revenues was primarily attributable to lower volume associated with the effects of retail competition of $508 million and $278 million related to the 8% across-the-board rate reduction mandated by Pennsylvania deregulation. These decreases were partially offset by $149 million of PJM network transmission service revenue and $59 million related to higher volume as a result of favorable weather conditions as compared to 1998. PJM network transmission service revenues and charges, which commenced April 1, 1998, were recorded in Generation in 1998 but were recognized by Energy Delivery in 1999 as a result of the Federal Energy Regulatory Commission (FERC) approval of the PJM Regional Transmission Owners' rate case settlements. Stranded cost recovery was included in PECO's retail electric rates beginning January 1, 1999. In addition, gas revenues increased $50 million primarily attributable to increased volume as a result of favorable weather conditions of $27 million and increased volume from new and existing customers of $20 million as compared to 1998.

Generation
The increase in Generation's operating revenues was primarily attributable to $473 million from increased volume in Pennsylvania as a result of the sale of competitive retail electric generation services, increased wholesale revenues of $133 million from the marketing of excess generation capacity as a result of retail competition and revenues of $99 million from the sale of generation from Clinton to Illinois Power (IP), partially offset by the inclusion of $116 million of PJM network transmission service revenue in 1998.

Under the management agreement with IP, PECO was responsible for the payment of all direct O&M costs and direct capital costs incurred by IP and allocable to the operation of Clinton. These costs were reflected in O&M expenses. IP was responsible for fuel and indirect costs such as pension benefits, payroll taxes and property taxes. Following the restart of Clinton on June 2, 1999, and through December 15, 1999, PECO sold 80% of the output of Clinton to IP. The remaining output was sold by PECO in the wholesale market. Under a separate agreement with PECO, British Energy Inc., a wholly owned subsidiary of British Energy plc (British Energy) agreed to share 50% of the costs and revenues associated with the management agreement with IP. Effective December 15, 1999, AmerGen acquired Clinton. Accordingly, the results of operations of Clinton have been accounted for under the equity method of accounting in Exelon's Consolidated Statements of Income since the acquisition date.

Enterprises
The increase in Enterprises' operating revenue was attributable to the effects of the infrastructure services company acquisitions made in 1999.

Fuel and Purchased Power Expense

| | 1999 | 1998 | $ Variance | % Variance |
|---|---|---|---|---|
| | (in millions, except percentage data) | | | |
| Energy Delivery | $ 370 | $ 191 | $ 179 | 93.7% |
| Generation | 1,782 | 1,620 | 162 | 10.0% |
| | $2,152 | $1,811 | $ 341 | 18.8% |

Energy Delivery
Energy Delivery's increase in fuel and purchased power expense was attributable to $98 million of PJM network transmission service charges, $51 million of purchases in the spot market and $30 million of additional volume as a result of weather conditions.

Generation
Generation's increase in fuel and purchased power expense was primarily attributable to $565 million related to increased volume from the sale of competitive electric generation services and a $36 million reserve related to a power supply contract in Massachusetts as a result of higher than anticipated cost of supply in the New England power pool. These increases were partially offset by $277 million of fuel savings from wholesale operations as a result of lower volume and efficient operation of generating assets, the inclusion of PJM network transmission service charges of $116 million in 1998, and the reversal of $27 million in reserves associated with a cogeneration facility in connection with the final settlement of litigation and expected prices of electricity over the remaining life of the power purchase agreements for the facility. In addition, the full return to service of Salem Generating Station (Salem) in April 1998 resulted in $19 million of fuel savings associated with a reduction in purchased power costs.

Operating and Maintenance Expense

| | 1999 | 1998 | $ Variance | % Variance |
|---|---|---|---|---|
| | (in millions, except percentage data) | | | |
| Energy Delivery | $ 434 | $ 431 | $ 3 | 0.7% |
| Generation | 721 | 543 | 178 | 32.8% |
| Enterprises | 136 | 38 | 98 | 257.9% |
| Corporate | 163 | 186 | (23) | (12.4)% |
| | $1,454 | $1,198 | $ 256 | 21.4% |

Energy Delivery
Energy Delivery's O&M expenses included $11 million of additional expenses related to restoration activities as a result of Hurricane Floyd which were partially offset by lower electric transmission and distribution expenses.

Generation

Generation's increase in O&M expense was primarily a result of $70 million related to Clinton operations in connection with the management agreement, $24 million related to the growth of Exelon Energy, $15 million of charges related to the abandonment of two information systems implementations, $10 million associated with the Salem inventory write-off for excess and obsolete inventory and $7 million related to the true-up of 1998 reimbursement of joint-owner expenses. These decreases were partially offset by $10 million of lower O&M expenses as a result of the full return to service of Salem in April 1998.

Enterprises

Enterprises' increase in O&M expense was related to the infrastructure services company acquisitions made in 1999.

Corporate

Corporate's decrease in O&M expense was primarily as a result of $17 million of lower pension and postretirement benefits expense attributable to the performance of the investments in PECO's pension plan.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased $406 million, or 63%, to $237 million in 1999. The decrease in depreciation and amortization expense was associated with the December 1997 restructuring charge through which PECO wrote down a significant portion of its generating plant and regulatory assets. In connection with this restructuring charge, PECO reduced generation-related assets by $8.4 billion, established a regulatory asset, Deferred Generation Costs Recoverable in Current Rates of $424 million, which was fully amortized in 1998, and established an additional regulatory asset, CTC, of $5.3 billion. CTC is being amortized over an eleven year period ending December 31, 2010.

Taxes Other Than Income

Taxes other than income decreased $18 million, or 6%, to $262 million in 1999. The decrease in taxes other than income was primarily attributable to a $34 million credit related to an adjustment of PECO's Pennsylvania capital stock tax base as a result of the 1997 restructuring charge, partially offset by an increase of $17 million in real estate taxes as a result of changes in tax laws for utility property in Pennsylvania.

Interest Charges

Interest charges increased $54 million, or 14%, to $429 million in 1999. The increase in interest charges was primarily attributable to interest on the transition bonds issued to securitize PECO's stranded cost recovery of $179 million, partially offset by a $99 million reduction in interest charges resulting from the use of securitization proceeds to repay long-term debt and preferred securities of subsidiaries. In addition, Exelon's ongoing program to reduce or refinance higher cost, long-term debt reduced interest charges by $26 million.

Equity in Earnings (Losses) of Unconsolidated Affiliates

Equity in earnings (losses) of unconsolidated affiliates increased $16 million or 30%, to losses of $38 million in 1999. The lower losses are primarily attributable to customer base growth for communications joint ventures.

Other Income and Deductions

Other income and deductions, excluding interest charges and equity in earnings (losses) of unconsolidated affiliates, increased $58 million, to income of $59 million in 1999 as compared to income of $1 million in 1998. The increase in other income and deductions was primarily attributable to $28 million of interest income earned on the unused portion of the proceeds from securitization of stranded cost recovery prior to application, $14 million of gain on the sale of assets, a $10 million donation to a City of Philadelphia street lighting project in 1998 and a $7 million write-off of a non-regulated business venture in 1998. These increases were partially offset by a $15 million write-off of an investment in connection with the settlement of litigation.

### Income Taxes

The effective tax rate was 37.1% in 1999 as compared to 38.1% in 1998. The decrease in the effective tax rate was primarily attributable to an income tax benefit of approximately $11 million related to the favorable resolution of certain outstanding issues in connection with the settlement of an Internal Revenue Service audit and tax benefits associated with the implementation of state tax planning strategies, partially offset by the non-recognition for state income tax purposes of certain operating losses.

### Extraordinary Items

In 1999, Exelon incurred extraordinary charges aggregating $62 million ($37 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment and refinancing of debt.

In 1998, Exelon incurred extraordinary charges aggregating $34 million ($20 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment of debt.

## Liquidity and Capital Resources

Cash flows from operations were $1,096 million in 2000 as compared to $883 million in 1999 and $1,486 million in 1998.

Cash flows used in investing activities were $1,203 million in 2000 as compared to $886 million in 1999 and $521 million in 1998. The increase in 2000 was primarily attributable to the acquisition of a 49.9% interest in Sithe for $704 million and cash consideration for the merger of $507 million. Capital expenditures increased by $261 million to $752 million in 2000. These increases were partially offset by prepayments of scheduled lease payments received in connection with Unicom's like-kind exchange transaction entered into in June 2000 of $1.2 billion and $118 million of investments in and advances to joint ventures that occurred in 1999.

Cash flows used in financing activities were $255 million in 2000 as compared to cash flows provided by financing activities of $183 million in 1999 and cash flows used in financing activities of $950 million in 1998. Cash flows from financing activities in 2000 primarily reflect PECO's additional securitization of stranded cost recovery and the use of related proceeds.

Exelon's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing. 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.

Exelon's estimated capital expenditures and other investments in 2001 are approximately $2.7 billion. Exelon's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

For the year ended December 31, 2000, capital expenditures for PECO and ComEd were $219 million and $1.2 billion, respectively. Energy Delivery's estimated capital expenditures for 2001 are approximately $1.2 billion, principally for intensive efforts to continue to improve the reliability of its distribution system in the Chicago region. Exelon anticipates that PECO and ComEd will obtain external financing, when necessary, through borrowings or issuance of preferred securities by PECO or ComEd, or capital contributions from Exelon.

Generation's capital expenditures were $288 million in 2000. Generation's estimated capital expenditures for 2001 are approximately $950 million, principally for maintenance, nuclear fuel and increases in capacity at existing plants. In addition, Generation holds an option to purchase the remaining 50.1% interest in Sithe, exercisable between December 2002 and December 2005, at a price to be determined based on prevailing market conditions. Generation and British Energy, Generation's joint venture partner in AmerGen, have each agreed to provide up to $100 million to AmerGen at any time for operating expenses. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, Generation borrowings or capital contributions from Exelon. Any borrowings by Generation may be initially guaranteed by Exelon as a result of Generation's lack of separate operational history.

Enterprises' capital expenditures, including acquisitions, were $394 million in 2000. Enterprises' estimated capital expenditures for 2001 are approximately $456 million, primarily for strategic acquisitions and investments. All of Enterprises' investments are expected to be funded by capital contributions or borrowings from Exelon.

Exelon has obtained an order from the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (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. 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. The SEC order also authorized Exelon guarantees of up to $4.5 billion outstanding at any one time. The SEC order requires Exelon to maintain a ratio of common equity to total capitalization (including securitization debt) on and after June 30, 2002 of not less than 30%. At December 31, 2000, Exelon's common equity to total capitalization was 31%. Under PUHCA and the Federal Power Act, Exelon, PECO, ComEd and Generation can only pay dividends from retained 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 December 31, 2000, Exelon had retained earnings of $332 million, PECO had retained earnings of $197 million, ComEd had retained earnings of $133 million and Generation had no retained earnings. Exelon is also limited by order of the SEC under PUHCA to an aggregate investment of $4 billion in exempt wholesale generators and foreign utility companies.

The Board of Directors of Exelon has announced its intention, subject to approval and declaration by the Board of Directors each quarter, to declare annual dividends on its common stock of $1.69 per share.

At December 31, 2000, Exelon's capital structure consisted of 60% of long-term debt of Exelon and subsidiaries, 31% common stock, 6% notes payable and 3% preferred securities of subsidiaries. Long-term debt includes $7.6 billion of securitization debt constituting obligations of certain consolidated special purpose entities representing 33% of capitalization.

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under bank credit facilities by Exelon, PECO and ComEd. Exelon, along with PECO and ComEd, entered into a $2 billion unsecured revolving credit facility with a group of banks. This credit facility is used principally to support the commercial paper program of Exelon, PECO and ComEd.

At December 31, 2000, Exelon had outstanding $1.4 billion of notes payable including $161 million of commercial paper. For the year ended December 31, 2000, average interest rates on notes payable were 7.18%. Certain of the credit agreements to which Exelon, PECO and ComEd are a party require each of them to maintain a debt to total capitalization ratio of 65% (excluding securitization debt). At December 31, 2000, the debt to total capitalization ratios on the same basis for Exelon, PECO and ComEd were 51%, 48%, and 43%, respectively.

In October 2000, Exelon obtained a $1.25 billion term loan due June 30, 2001 to finance the cash consideration paid to former holders of Unicom common stock in connection with the merger and to finance the purchase of its 49.9% interest in Sithe in December 2000. Interest rates on the advances from the credit facility are based on the London Interbank Offering Rate (LIBOR) as of the date of the advance. The average interest rate on this term loan for the period it was outstanding in 2000 was 7.62%. Exelon expects to refinance this term loan on or before its due date.

## Quantitative and Qualitative Disclosures About Market Risk

Exelon is exposed to market risks associated with commodity price, credit, interest rates and equity prices.

### Commodity Price Risk

Exelon utilizes contracts for the forward sale and purchase of energy to manage its available generation capacity and its physical delivery obligations to wholesale and retail customers. Energy option contracts and energy swap arrangements are used to limit the market price risk associated with forward contracts. Market price risk exposure is the difference between the fixed price commitments in the contracts and the market price of the commodity. The estimated market price exposure associated with a 10% decrease in the average around the clock market price of electricity is a $60 million decrease in net income. Although Exelon expects to begin to use financial and commodity contracts for trading purposes in the second quarter of 2001, such contracts were not utilized for trading or speculative purposes in 2000. Exelon has established risk policies, procedures and limits to manage its exposure to market risk.

### Credit Risk

ComEd and PECO are each obligated to provide service to all customers within their respective franchised territories. As a result, ComEd and PECO each have a broad customer base. For the year ended December 31, 2000, ComEd's ten largest customers represented approximately 3% of its retail electric revenues and PECO's ten largest customers represented approximately 10% of its retail electric revenues. Credit risk for Energy Delivery is managed by each company's credit and collection policies which are regulated by their respective state authorities.

Generation manages credit risk through established policies, including deposits and letters of credit for counterparties to bilateral contractual arrangements. For sales into the spot markets, the administrators (generally independent system operators (ISOs)) of those markets maintain financial assurance policies that are established and enforced by those administrators. Such policies may not protect Generation from credit risk of load-serving entities purchasing services in the spot markets, particularly load-serving entities that have a statutory obligation to serve customers.

In the energy services and infrastructure businesses, credit risks are managed through established credit and collection policies.

### Interest Rate Risk

Exelon uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies are employed to maintain the lowest cost of capital. As of December 31, 2000, a hypothetical 10% increase in the interest rates associated with variable rate debt would result in an $11 million decrease in pre-tax earnings for 2001.

Exelon has entered into interest rate swaps to manage interest rate exposure associated with the floating rate series of transition bonds issued to securitize PECO's stranded cost recovery (Transition Bonds). At December 31, 2000, these interest rate swaps had a fair market value of $21 million based on the present value difference between the contract and market rates at December 31, 2000.

The aggregate fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2000 is estimated to be $17 million. If the derivative instruments had been terminated at December 31, 2000, this estimated fair value represents the amount to be paid by Exelon to the counterparties.

The aggregate fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2000 is estimated to be $59 million. If the derivative instruments had been terminated at December 31, 2000, this estimated fair value represents the amount to be paid by the counterparties to Exelon.

In February 2000, PECO entered into forward starting interest rate swaps for a notional amount of $1 billion in anticipation of the issuance of $1 billion of Series 2000-A Transition Bonds in the second quarter of 2000. In May 2000, PECO settled these forward starting interest rate swaps and paid the counterparties $13 million which was deferred and is being amortized over the life of the Series 2000-A Transition Bonds as an increase in interest expense.

Equity Price Risk

Exelon maintains trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of decommissioning its nuclear plants. As of December 31, 2000, these funds were invested primarily in domestic equity securities and fixed rate, fixed income securities and are reflected at fair value on the Consolidated Balance Sheets. The mix of securities is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the 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. Exelon actively monitors the investment performance and periodically reviews asset allocation in accordance with Exelon's nuclear decommissioning trust investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $224 million reduction in the fair value of the trust assets. PECO's restructuring settlement agreement provides for the collection of authorized nuclear decommissioning costs through the CTC. Additionally, PECO is permitted to seek recovery from customers of any increases in these costs. To fund nuclear decommissioning costs, ComEd is permitted to recover $73 million annually through 2006, subject to adjustment in 2005 and 2006 based upon nuclear plant usage to serve ComEd customers.

Outlook

Changes in the Utility Industry

The electric utility industry historically has consisted of vertically integrated companies which combine generation, transmission and distribution assets, serve customers within relatively defined service territories, and operate under extensive Federal and state regulation of rates, operations and other matters. Rate regulation of the utility industry is based on recovery of prudently incurred investments and operating costs plus a return on invested capital. The ability of utilities to recover their investment and other costs through rates provided a relatively stable financial environment for electric utilities.

The Federal Energy Policy Act of 1992, among other things, empowered FERC to introduce a greater level of competition into the wholesale marketplace for electric energy. Under FERC Order No. 888, utilities are required to file open-access tariffs for their transmission systems. In addition to Federal rules introducing a greater level of wholesale competition, a number of states, including Pennsylvania and Illinois, have adopted legislation to introduce retail competition into the electric industry. The focus of both the Federal and state initiatives to replace rate regulation with competition has been to disaggregate regulated, unified electric service into distribution, transmission and generation services, and to allow competition for generation services. Distribution and transmission services remain regulated by state and Federal regulatory authorities.

While significant steps have been taken to increase competition for generation of electricity, the level of competition varies greatly from state to state. Some states, such as Illinois and Pennsylvania, have adopted extensive restructuring initiatives, while other states have done little or nothing to introduce competition. Additionally, the transition to competition has been difficult in some states, such as California, where the regulatory structures adopted are perceived to be flawed.

Exelon's ability to develop a competitive energy business depends, in large part, on new and continuing regulatory restructuring initiatives. Exelon's ability to grow may be hindered if some states refrain from introducing competition as a response to difficulties encountered in California and elsewhere. In addition, the patchwork of inconsistent state regulations restructuring the electric industry may limit Exelon's ability to compete as a generator of electricity and as a seller of unregulated energy services. National legislation that seeks to address concerns arising out of perceived shortcomings of restructuring initiatives in some states could either restrict or enhance Exelon's ability to compete.

Exelon believes that competition for electric generation services has created new uncertainties. These 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 the margins on various varying electric service offerings. As a result, Exelon may be able to achieve greater rates of return, but it will also face an increased risk of being unable to cover its costs, as the generation markets become more competitive.

Merger and Restructuring

Deregulation in the electric industry, as in most other industries that have deregulated, has resulted in substantial consolidation of entities within the industry in order for those entities to pursue new strategies presented by competition and to achieve economies of scale. Exelon believes that the consolidation and transformation of the electric and natural gas segments of the energy industry will result in the emergence of a limited number of substantial competitors. These large entities will have assets and skills necessary to create value in one or more of the traditional segments of the utility industry. Exelon believes that companies that have the financial strength, strategic foresight and operational skills to establish scale and early leadership positions in key segments of the energy industry will be in the best position to compete in the new marketplace.

As a result of the merger of Unicom and PECO, Exelon is one of the largest utilities in the United States, with annualized sales of over 120,000 gigawatthours. Management of Exelon believes that the merger will provide substantial strategic and financial benefits to shareholders, employees and customers. The benefits include expanded generation capacity, an enhanced power marketing business, a broadened distribution platform, strategic fit and compatibility, a foundation for growth of unregulated businesses and cost savings. Exelon's future financial condition and results of operations are, in large part, dependent upon its ability to realize the anticipated benefits of the merger.

In connection with the regulatory approvals of the merger, Exelon received authorization to restructure its operations. During January 2001, Exelon undertook a restructuring to separate Exelon's generation and other competitive businesses from its regulated energy delivery business. In addition, Exelon formed Exelon Business Services Company, which provides a full range of support services to Exelon's business units, such as legal, human resources and financial services. Exelon anticipates that additional steps will be taken to restructure the operations of its energy delivery business. Exelon's future results of operations are dependent on its ability to combine the parallel business units that previously were part of Unicom or PECO into integrated business units with a larger scale and geographical scope, while maintaining the benefits previously realized through the combination of energy delivery, generation and enterprises businesses within a single corporation. Consolidating functions and integrating organizations, procedures and operations in a timely and efficient manner will be a challenge for Exelon, particularly in light of the continuing changes in the energy industry.

Energy Delivery

Exelon believes that its energy delivery business will provide a significant and steady source of earnings for reinvestment in growth opportunities. Exelon's primary goals for its energy delivery companies, ComEd and PECO, are to deliver reliable service, to improve customer service and to sustain productive regulatory relationships. Achieving these goals is expected to maximize the value of Exelon's energy delivery assets.

Electric Distribution

ComEd's and PECO's distribution rates are assessed on a per kilowatthour basis. Consequently, revenues from distribution service are dependent on usage levels of customers, which are in turn affected by weather and economic activity in the franchised service territories. Electric utility restructuring legislation was adopted in Pennsylvania in December 1996 and in Illinois in December 1997. Both states, through their regulatory agencies, established a phased approach to competition, allowing customers to choose an alternative electric supplier; required rate reductions and imposed caps on rates during a transition period; and allowed the collection of CTCs from customers to recover stranded costs. Under the restructuring regulations adopted at the Federal and state levels, the role of electric utilities in the supply and delivery of energy is changing. ComEd and PECO continue to be obligated to provide a reliable delivery system under cost-based rates. They are also obligated to supply generation service during the transition period to a competitive supply marketplace to customers who do not or cannot choose an alternate supplier. Retail competition for generation services has resulted in reduced revenues from regulated rates and the sale of increasing amounts of energy at market-based rates.

The rates for the generation service provided by ComEd and PECO are subject to rate caps during the transition periods. PECO has entered into a long-term power purchase agreement with Generation to obtain sufficient power at the rates it is allowed to charge to serve customers who do not choose alternate generation suppliers. ComEd has entered into a long-term power purchase agreement with Generation to obtain sufficient power at fixed rates.

ComEd. Under the Illinois legislation, as of December 31, 2000, all non-residential customers were eligible to choose a new electric supplier or elect the purchase power option. The purchase power option allows the purchase of electric energy from ComEd at market-based prices. ComEd's residential customers become eligible to choose a new electric supplier or elect the purchase power option in May 2002. As of December 31, 2000, over 9,500 non-residential customers, representing approximately 27% of ComEd's retail kilowatthour sales for the twelve months prior to the introduction of open-access, elected to receive their electric energy from an alternative electric supplier or chose the purchase power option.

In addition to retail competition for generation services, the Illinois legislation will affect ComEd's future operations through a 5% residential base rate reduction that will become effective in October 2001, a base rate freeze generally effective until at least January 1, 2005 and the collection of a CTC from customers who choose to purchase electric energy from an alternative supplier or elect the purchase power option during a transition period that extends through 2006.

Effective October 1, 1999, the CTC was established in accordance with a formula defined in the Illinois legislation. The CTC, which is applied on a cents per kilowatthour basis, considers the revenue which would have been collected from a customer under tariffed rates, reduced by the revenue the utility will receive for providing delivery services to the customer, the market price for electricity and a defined mitigation factor, which represents the utility's opportunity to develop new revenue sources and achieve cost savings. The CTC allows ComEd to recover some of its costs which might otherwise be unrecoverable under market-based rates. If the earned return on common equity of ComEd during the period ending December 31, 2004 exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the 30-Year Treasury Bond rate, plus 8.5% in the years 2000 through 2004. Earnings for purposes of ComEd's rate cap include ComEd's net income calculated in accordance with generally accepted accounting principles and may include accelerated amortization of regulatory assets and the amortization of goodwill. As a result of the Illinois restructuring legislation, ComEd has recorded a $385 million regulatory asset that it expects to fully recover and amortize by the end of 2003. ComEd does not currently expect to trigger the earnings sharing provisions in the years 2001 through 2004.

As part of a settlement agreement between ComEd and the City of Chicago (City) relating to the franchise agreement, ComEd and the City 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 service in the City. The utility restructuring legislation in Illinois also committed ComEd to spend at least $2 billion during the period 1999 through 2004 on transmission and distribution facilities outside of the City. In addition, ComEd conducted an extensive evaluation of the reliability of its transmission and distribution systems in response to several outages in the summer of 1999. As a result of the evaluation, ComEd has increased its construction and O&M expenditures on its transmission and distribution facilities in order to improve their reliability.

As a result of ComEd's commitments to improve the reliability of its transmission and distribution system, ComEd expects that its capital expenditures will exceed depreciation on its rate base assets through at least 2002. The base rate freeze will generally preclude rate recovery on and of such investments through 2006. Unless ComEd can offset the additional carrying costs against cost savings, its return on investment will be reduced during the period of the rate freeze and until rate increases are approved authorizing a return of and on this new investment.

PECO. Retail competition for electric generation services began in Pennsylvania on January 1, 1999, and by January 1, 2000 all of PECO's retail electric customers had the right to choose their generation suppliers. In addition to retail competition for generation services, PECO's settlement of its restructuring case provided for the obligation of PECO to provide generation services to customers who do not or cannot choose an alternate supplier through December 31, 2010 and established caps on generation rates (consisting of the charge for stranded cost recovery and the shopping credit) and transmission and distribution rates until December 1, 2010, and June 30, 2005, respectively.

PECO's settlement of its restructuring case included a number of provisions designed to encourage competition for generation services. The provisions include above-market shopping credits for generation service which provide an economic incentive for customers to choose an alternative supplier, periodic assignments of a portion of PECO's non-shopping customers to alternative suppliers and the selection of an alternative supplier as the provider of last resort (PLR) for a portion of PECO's customers. At December 31, 2000, approximately 18% of PECO's residential load, 46% of its commercial load and 42% of its industrial load were purchasing generation service from an alternative generation supplier.

PECO has been authorized to recover stranded costs of $5.3 billion over a twelve-year period ending December 31, 2010 with a return on the unamortized balance of 10.75%. PECO's recovery of stranded costs is based on the level of transition charges established in the settlement of PECO's restructuring case and the projected annual retail sales in PECO's service territory. Recovery of transition charges for stranded costs and PECO's allowed return on its recovery of stranded costs are included in operating revenue. In 2000, CTC revenue was $628 million and is scheduled to increase to $932 million by 2010, the final year of stranded cost recovery. Amortization of PECO's stranded cost recovery, which is a regulatory asset, began in 2000 and is included in depreciation and amortization. The amortization expense for 2000 was $57 million and will increase to $879 million by 2010.

In connection with its request to securitize an additional $1 billion of its stranded cost recovery, PECO agreed to provide its customers with additional rate reductions of $60 million in 2001. Under the settlement agreement entered into by PECO relating to the Pennsylvania Public Utility Commission's (PUC) approval of the merger, PECO agreed to $200 million in aggregate rate reductions for all customers over the period January 1, 2002 through 2005 and extended the cap on PECO's transmission and distribution rates through December 31, 2006.

The cap on PECO's transmission and distribution rates through December 31, 2006 is subject to certain limited exceptions, including significant increases in Federal or state taxes or other significant changes in law or regulations that would not allow PECO to earn a fair rate of return. The cap on transmission and distribution rates limits PECO's ability to recover increased costs and its investments in new transmission and distribution facilities through rates. Additionally, the rate reductions agreed to in connection with the merger with Unicom will reduce PECO's earnings in future years unless those rate reductions can be offset by cost savings resulting from the merger.

Under the Pennsylvania legislation, licensed entities, including alternative generation suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. In that event, the alternative supplier or other third party replaces the customer as the obligor with respect to the customer's bill and PECO generally has no right to collect such receivable from the customer. Third party billing would change PECO's customer profile (and risk of non-payment by customers) by replacing multiple customers with the alternate generation supplier providing third-party billing to those customers. To date, no third parties are providing billing of PECO's charges to customers.

Natural Gas. On July 1, 2000, PECO implemented the Pennsylvania Natural Gas Choice and Competition Act (Act) that was passed in 1999. The Act expands choice of gas suppliers to residential and small commercial customers and eliminates the 5% gross receipts tax on gas distribution companies' sales of gas. Large commercial and industrial customers have been able to choose their suppliers since 1984. Currently, approximately one-third of PECO's total yearly throughput is supplied by third parties.

The Act permits gas distribution companies to continue to make regulated sales of gas to their customers. The Act does not deregulate the transportation service provided by gas distribution companies, which remains subject to rate regulation. Gas distribution companies will continue to provide billing, metering, installation, maintenance and emergency response services.

Exelon believes there will be no material impact on its financial condition or operations because of the PUC's existing requirement that gas distribution companies cannot collect more than the actual cost of gas from customers and the Act's requirement that suppliers must accept assignment or release, at contract rates, the portion of the gas distribution company's firm interstate pipeline contracts required to serve the suppliers' customers.

Transmission. Energy Delivery also provides wholesale transmission service under rates established by FERC. FERC has used its regulation of transmission to encourage competition for wholesale generation services and the development of regional structures to facilitate regional wholesale markets. In December 1999, FERC issued Order No. 2000 (Order 2000) requiring jurisdictional utilities to file a proposal to form a regional transmission organization (RTO) meeting certain governance, operational, and scope and scale requirements articulated in the order or, alternatively, to describe efforts to participate in or work toward participating in an RTO or explain why they were not participating in an RTO. Order 2000 is generally designed to separate the governance and operation of the transmission system from generation companies and other market participants. RTOs may be organized and may independently manage regional transmission systems in a variety of ways, including through independent for-profit or not-for-profit transmission companies, independent not-for-profit system operators or ISOs (such as the Midwest Independent Transmission System Operator (MISO)), as well as other structures. FERC has set December 15, 2001 as the deadline for transferring control over transmission facilities to approved RTOs.

ComEd has been a transmission-owning member of the MISO, a prospective RTO. On October 31, 2000, ComEd announced its intention to join the Alliance Regional Transmission Organization (Alliance), an RTO being established by utilities generally located to the east of ComEd. Participation options in the Alliance are being evaluated, including a transfer of the transmission assets for a passive equity interest, leasing or a management-type arrangement. ComEd has provided notice of its intention to withdraw from its membership in the MISO, which withdrawal is needed in order to participate in the Alliance. As a result of the merger, ComEd believes that its transmission facilities may be withdrawn from participation in the MISO as of a date no later than October 31, 2001, subject to FERC approval. In late February 2001, ComEd, the MISO and other market participants reached a proposed settlement regarding ComEd's withdrawal from the MISO. The proposed settlement is subject to FERC approval, which has the power to accept, reject or make changes as a condition to its approval. If the settlement is approved, ComEd will be permitted to withdraw from the MISO and to join the Alliance. At present, ComEd believes it has established adequate reserves for its portion of costs related to its withdrawal from the MISO.

PECO provides regional transmission service pursuant to a regional open-access transmission tariff filed by it and the other transmission owners who are members of PJM. PJM is a power pool that integrates, through central dispatch, the generation and transmission operations of its member companies across a 50,000 square mile territory. Under the PJM tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM members at rates based on the costs of transmission service. PJM's Office of Interconnection is the ISO for PJM and is responsible for operation of the PJM control area and administration of the PJM open-access transmission tariff. PECO and the other transmission owners in PJM have turned over control of their transmission facilities to the ISO. The PJM ISO and the transmission owners who are members of PJM, including PECO, have filed with FERC for approval of PJM as an RTO.

Generation

Exelon believes that its generation and power marketing business will be the primary growth vehicle in the near term. Exelon's generation strategy is to develop a national generation portfolio with fuel and dispatch diversity, to recognize the cost savings and operational benefits of owning and operating substantial generating capacity and to optimize the value of Exelon's low-cost generating capacity through power marketing expertise.

Generation competes nationally in the wholesale electric generation markets on the basis of price and service offerings, utilizing its generation portfolio to assure customers of energy deliverability. Generation's generating capacity is primarily located in the Midwest, Mid-Atlantic and Northeast regions. Generation owns a 50% interest in AmerGen and a 49.9% interest in Sithe. Generation has agreed to supply ComEd and PECO with their respective load requirements for customers through 2006 and 2010, respectively. Generation has also contracted with Exelon Energy to meet its load requirements pursuant to its competitive retail generation sales agreements. In addition, Generation has contracts to sell energy and capacity to third parties. To the extent that Generation's resources exceed its contractual commitments, it markets these resources on a short-term basis or sells them in the spot market. Generation's future results of operations are dependent upon its ability to operate its generating facilities efficiently to meet its contractual commitments and to sell energy services in the wholesale markets. A substantial portion of Generation's capacity, including all of the nuclear capacity, is base load generation designed to operate for extended periods of time at low marginal costs. Nuclear generation is currently the most effective way for Generation to meets its commitments for sales to Energy Delivery and other utilities. During 2000, the nuclear generating facilities now owned by Generation operated at a 94% weighted average capacity factor. To meet its long-term commitments to provide energy, including its commitment to meet the PLR load obligations of PECO and ComEd, Generation must operate its nuclear generating facilities at planned capacity levels which are at or above 90% for each of the years 2001 through 2003. Failure to achieve these capacity levels would require Generation to contract or purchase in the spot market more expensive energy to meet these commitments. Because of Generation's 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 Generation.

The future growth of Generation is dependent upon its ability to acquire additional generating capacity and to successfully develop additional capacity. Growth is also dependent upon the power marketing activity of Generation. Through its Power Team, Generation enters into short-term and long-term contracts to purchase and sell energy and energy-related services. Power Team relies on its unique market knowledge. Generation's power marketing operations are dependent upon continued development of the wholesale energy market and Power Team's ability to manage trading and credit risks in those markets. Generation's power marketing activities include short-term and long-term commitments to purchase and sell energy and related energy products and to purchase transmission service to deliver power. See Note 18 of the Notes to Consolidated Financial Statements.

Because of its substantial ownership interest in generation and investments in AmerGen and Sithe, Generation utilizes contracts for the forward sale and purchase of energy to manage its available generation capacity and its physical delivery obligations to wholesale and retail customers. As a result, increased costs of operating its generating facilities or depressed prices in the wholesale market will adversely affect its results of operations. While Generation attempts to enter into bilateral contracts for the majority of its generation, it also participates in the spot markets in the Northeast. These markets are newly created, are continuing to develop and are subject to significant price volatility. The spot markets also involve the credit risks of market participants purchasing energy which Generation may not be able to manage or hedge. Likewise, investments in new generation, whether purchased or developed, are dependent upon the future success of both the bilateral and spot energy wholesale markets.

During 2001, Generation intends to pursue financial trading, primarily to complement the marketing of its generation portfolio. Generation intends 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 the adoption of Statement of Financial Accounting Standards (SFAS) No. 133, may cause volatility in Exelon's future results of operations.

Enterprises

Enterprises consists primarily of Exelon Infrastructure Services, Inc. (EIS), the infrastructure services business, Exelon Services, the energy services business, Exelon Energy, the competitive retail energy sales business and Exelon Thermal, a district cooling company. Enterprises also invests in new entrepreneurial companies seeking opportunities arising from deregulation.

The results of EIS and Exelon Services are dependent on continued restructuring of the electric utility industry and growth of the communications, cable and internet industries which have resulted in demand for outsourced construction and maintenance services. Exelon anticipates that EIS and Exelon Services will each continue to acquire other similar service companies. Accordingly, their results of operations will be dependent upon their ability to consolidate acquired companies into a single company with larger scale and geographic scope.

Exelon Energy's business is dependent upon continued deregulation of retail electric and gas markets and its ability to obtain supplies of electricity and gas at competitive prices in the wholesale market.

Enterprises investments are weighted toward the communications industry, but also include companies in energy services and retail services, including e-commerce. Investments in the communications industries have included joint ventures with established companies. Investments in other areas have generally been in new ventures. Enterprises continually monitors the performance and potential of its investments and evaluates opportunities to sell existing investments and to make new investments. In the past, Exelon has been required to write off or write down certain investments. The sale, write down, or write off of investments may increase the volatility of earnings.

Other Factors

Annual operating results can be significantly affected by weather. Since Exelon's peak retail demand is in the summer months, temperature variations in summer months generally have a more significant impact on results of operations than variations during winter months.

Inflation affects Exelon through increased operating costs and increased capital costs for utility plant. As a result of the rate caps imposed under the legislation in Illinois and Pennsylvania and price pressures due to competition, Exelon may not be able to pass the costs of inflation through to customers.

Exelon'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 is generally liable for the costs of remediating environmental contamination of property now or formerly owned by Exelon and of property contaminated by hazardous substances generated by Exelon. Exelon owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. Exelon has identified 72 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. Exelon is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2000 and 1999, Exelon had accrued $172 million and $57 million, respectively, for environmental investigation and remediation costs, including $140 million and $32 million, respectively, for MGP investigation and remediation that currently can be reasonably estimated. The increases were primarily attributable to the acquisition of Unicom. Exelon expects to expend $27 million for environmental remediation activities in 2001. Exelon cannot predict whether it will incur other significant liabilities for any additional investigation and remediation costs at these or additional sites identified by Exelon, environmental agencies or others, or whether such costs will be recoverable from third parties.

For a discussion of other contingencies, see Note 18 of Notes to Consolidated Financial Statements.

## New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date for SFAS No. 133 until fiscal years beginning after June 15, 2000. The effect of adopting SFAS No. 133 in the first quarter of 2001 will result in a cumulative after-tax increase in net income of approximately $17 million and other comprehensive income of approximately $21 million. The adoption will also impact the assets and liabilities recorded on the Consolidated Balance Sheets of Exelon and may result in future earnings volatility. The determination of the impact of SFAS No. 133 is based on current interpretations of SFAS No. 133, including interpretations of the Derivatives Implementation Group of the FASB, related to the treatment of electricity capacity contracts. If final guidance, when issued, changes the treatment of electricity capacity contracts, the effects of the implementation of SFAS No. 133 may differ from the amounts disclosed above.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No, 125." This new standard revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and should be applied prospectively. At December 31, 2000, Exelon did not anticipate entering into any transactions that would be subject to the provisions of SFAS No. 140 when it becomes effective.

## Forward-Looking Statements

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements which 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 18 of Notes to Consolidated Financial Statements and other factors discussed in Exelon's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. Exelon undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Report.

Exhibit 99-3

Exelon Corporation and Subsidiary Companies
Financial Statements and Supplementary Data

## Report of Independent Accountants

To the Shareholders and
Board of Directors of
Exelon Corporation:

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income, cash flows and changes in shareholders' equity and comprehensive income present fairly, in all material respects, the financial position of Exelon Corporation and Subsidiary Companies (Exelon) at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Exelon's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with 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 1 to the consolidated financial statements, Exelon acquired Unicom Corporation on October 20, 2000 in a business combination accounted for under the purchase method of accounting. The results of Unicom Corporation are included in the consolidated financial statements since the acquisition date.

As discussed in Note 4 to the consolidated financial statements, Exelon changed its method of accounting for nuclear outage costs in 2000.

PricewaterhouseCoopers LLP

Chicago, Illinois
January 30, 2001, except for
Note 21 PETT Refinancing for
which the date is March 1, 2001

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Income

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | For the Years Ended December 31, | | |
| | In Millions, except per share data | | |
| Operating Revenues | $ 7,499 | $ 5,478 | $ 5,325 |
| Operating Expenses | | | |
| Fuel and Purchased Power | 2,606 | 2,152 | 1,811 |
| Operating and Maintenance | 2,310 | 1,454 | 1,198 |
| Merger-Related Costs | 276 | -- | -- |
| Early Retirement and Separation Program | -- | -- | 125 |
| Depreciation and Amortization | 458 | 237 | 643 |
| Taxes Other Than Income | 322 | 262 | 280 |
| Total Operating Expenses | 5,972 | 4,105 | 4,057 |
| Operating Income | 1,527 | 1,373 | 1,268 |
| Other Income and Deductions | | | |
| Interest Expense | (608) | (396) | (331) |
| Distributions on Preferred Securities of Subsidiaries | (24) | (33) | (44) |
| Equity in Earnings (Losses) of Unconsolidated Affiliates | (41) | (38) | (54) |
| Other, Net | 53 | 59 | 1 |
| Total Other Income and Deductions | (620) | (408) | (428) |
| Income Before Income Taxes, Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | 907 | 965 | 840 |
| Income Taxes | 341 | 358 | 320 |
| Income Before Extraordinary Items and Cumulative Effect Of a Change in Accounting Principle | 566 | 607 | 520 |
| Extraordinary Items (net of income taxes of $2, $25, and $14 for 2000, 1999, and 1998, respectively) | (4) | (37) | (20) |
| Cumulative Effect of a Change in Accounting Principle (net of income taxes of $16) | 24 | -- | -- |
| Net Income | $ 586 | $ 570 | $ 500 |
| Average Shares of Common Stock Outstanding | 202 | 196 | 223 |
| Earnings Per Share: | | | |
| Basic: | | | |
| Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | $ 2.81 | $ 3.10 | $ 2.33 |
| Extraordinary Items | (0.02) | (0.19) | (0.09) |
| Cumulative Effect of a Change in Accounting Principle | 0.12 | -- | -- |
| Net Income | $ 2.91 | $ 2.91 | $ 2.24 |
| Diluted: | | | |
| Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | $ 2.77 | $ 3.08 | $ 2.32 |
| Extraordinary Items | (0.02) | (0.19) | (0.09) |
| Cumulative Effect of a Change in Accounting Principle | 0.12 | -- | -- |
| Net Income | $ 2.87 | $ 2.89 | $ 2.23 |
| Dividends Per Common Share | $ 0.91 | $ 1.00 | $ 1.00 |

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | | (In Millions) | |
| Cash Flows from Operating Activities | | | |
| Net Income | $ 586 | $ 570 | $ 500 |
| Adjustments to reconcile Net Income to Net Cash Flows provided by Operating Activities: | | | |
| Depreciation and Amortization | 607 | 358 | 765 |
| Extraordinary Items (net of income taxes) | 4 | 37 | 20 |
| Cumulative Effect of a Change in Accounting Principle (net of income taxes) | (24) | -- | -- |
| Provision for Uncollectible Accounts | 89 | 59 | 72 |
| Deferred Income Taxes | 193 | 7 | (115) |
| Merger-Related Costs | 276 | -- | -- |
| Early Retirement and Separation Program | -- | -- | 125 |
| Deferred Energy Costs | (79) | 23 | 6 |
| Equity in (Earnings) Losses of Unconsolidated Affiliates | 41 | 38 | 54 |
| Other Operating Activities | (87) | 6 | (22) |
| Changes in Working Capital: | | | |
| Accounts Receivable | (445) | (159) | 3 |
| Repurchase of Accounts Receivable | (50) | (150) | -- |
| Inventories | 49 | (43) | 14 |
| Accounts Payable, Accrued Expenses, & Other Current Liabilities | (35) | 149 | 63 |
| Other Current Assets | (29) | (12) | 1 |
| Net Cash Flows provided by Operating Activities | 1,096 | 883 | 1,486 |
| Cash Flows from Investing Activities | | | |
| Investment in Plant | (752) | (491) | (415) |
| Unicom Merger Consideration | (507) | -- | -- |
| Proceeds from Direct Financing Leases | 1,228 | -- | -- |
| Investment in Sithe Energies, Inc. | (704) | -- | -- |
| Exelon Infrastructure Services Acquisitions | (245) | (222) | -- |
| Investments in and Advances to Joint Ventures | -- | (118) | (59) |
| Contributions to Nuclear Decommissioning Trust Funds | (115) | (26) | (21) |
| Other Investing Activities | (108) | (29) | (26) |
| Net Cash Flows used in Investing Activities | (1,203) | (886) | (521) |
| Cash Flows from Financing Activities | | | |
| Issuance of Long-Term Debt, net of issuance costs | 1,021 | 4,170 | 13 |
| Common Stock Repurchases | (496) | (1,705) | -- |
| Retirement of Long-Term Debt | (665) | (1,343) | (842) |
| Change in Short-Term Debt | 10 | (388) | 124 |
| Redemption of Preferred Securities of Subsidiaries | (19) | (258) | (81) |
| Issuance of Preferred Securities of Subsidiaries | -- | -- | 78 |
| Dividends on Common Stock | (157) | (196) | (223) |
| Capital Lease Payments | -- | (139) | (60) |
| Other Financing Activities | 51 | 42 | 41 |
| Net Cash Flows provided by (used in) Financing Activities | (255) | 183 | (950) |
| Increase (Decrease) in Cash and Cash Equivalents | (362) | 180 | 15 |
| Cash and Cash Equivalents at beginning of period | 228 | 48 | 33 |
| Cash Acquired in Unicom Merger | 974 | -- | -- |
| Cash and Cash Equivalents at end of period | $ 840 | $ 228 | $ 48 |

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

| Assets | At December 31, 2000 | 1999 |
|---|---|---|
| | (In Millions) | |
| **Current Assets** | | |
| Cash and Cash Equivalents | $ 840 | $ 228 |
| Accounts Receivable, net | | |
| Customer | 2,137 | 344 |
| Other | 415 | 360 |
| Inventories, at average cost | | |
| Fossil Fuel | 157 | 113 |
| Materials and Supplies | 297 | 93 |
| Deferred Income Taxes | 62 | -- |
| Other | 276 | 83 |
| Total Current Assets | 4,184 | 1,221 |
| Property, Plant and Equipment, net | 12,936 | 5,004 |
| **Deferred Debits and Other Assets** | | |
| Regulatory Assets | 7,135 | 6,072 |
| Nuclear Decommissioning Trust Funds | 3,109 | 408 |
| Investments | 1,583 | 130 |
| Goodwill, net | 5,186 | 121 |
| Other | 464 | 131 |
| Total Deferred Debits and Other Assets | 17,477 | 6,862 |
| Total Assets | $ 34,597 | $ 13,087 |
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Notes Payable, Bank | $ 1,373 | $ 163 |
| Long-Term Debt Due Within One Year | 908 | 128 |
| Accounts Payable | 1,193 | 270 |
| Accrued Expenses | 720 | 616 |
| Deferred Income Taxes | -- | 14 |
| Other | 457 | 95 |
| Total Current Liabilities | 4,651 | 1,286 |
| Long-Term Debt | 12,958 | 5,969 |
| **Deferred Credits and Other Liabilities** | | |
| Deferred Income Taxes | 4,409 | 2,411 |
| Unamortized Investment Tax Credits | 330 | 286 |
| Nuclear Decommissioning Liability for Retired Plants | 1,301 | -- |
| Pension Obligations | 567 | 213 |
| Non-Pension Postretirement Benefits Obligation | 819 | 443 |
| Spent Nuclear Fuel Obligation | 810 | -- |
| Other | 907 | 385 |
| Total Deferred Credits and Other Liabilities | 9,143 | 3,738 |
| Preferred Securities of Subsidiaries | 630 | 321 |
| Commitments and Contingencies | | |
| **Shareholders' Equity** | | |
| Common Stock | 6,883 | 3,577 |
| Deferred Compensation | -- | (3) |
| Retained Earnings(Accumulated Deficit) | 332 | (100) |
| Treasury Stock, at cost | -- | (1,705) |
| Accumulated Other Comprehensive Income | -- | 4 |
| Total Shareholders' Equity | 7,215 | 1,773 |
| Total Liabilities and Shareholders' Equity | $ 34,597 | $ 13,087 |

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

| Year Ended December 31, | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| | (dollars in millions and shares in thousands) | | | | | |
| **Common Stock** | | | | | | |
| Balance at Beginning of Year | 225,354 | $3,577 | 224,684 | $3,558 | 222,547 | $3,507 |
| Capital Stock Activity: | | | | | | |
| Cancellation of Treasury Shares | (54,875) | (2,175) | | -- | | -- |
| Long Term Incentive Plan Issuances | 563 | 67 | 670 | 19 | 2,137 | 51 |
| Reorganization Pursuant to Share Exchange | | (7) | | -- | | -- |
| Shares Issued to Acquire Unicom | 147,963 | 5,310 | | -- | | -- |
| Merger Consideration - Stock Options | | 111 | | -- | | -- |
| Balance at End of Year | 319,005 | $6,883 | 225,354 | $3,577 | 224,684 | $3,558 |
| **Deferred Compensation** | | | | | | |
| Balance at Beginning of Year | | $(3) | | $-- | | $-- |
| Amortization | | 5 | | 2 | | -- |
| Long Term Incentive Plan Issuances | | (9) | | (5) | | -- |
| Reorganization Pursuant to Share Exchange | | 7 | | -- | | -- |
| Balance at End of Year | | $-- | | $(3) | | $-- |
| **Retained Earnings(Accumulated Deficit)** | | | | | | |
| Balance at Beginning of Year | | $(100) | | $(501) | | $(781) |
| Net Income | | 586 | | 570 | | 500 |
| Dividends: | | | | | | |
| Common Stock | | (157) | | (196) | | (223) |
| Capital Stock Activity: | | | | | | |
| Expenses of Capital Stock Activity | | -- | | -- | | 3 |
| Stock Forward Repurchase Contract | | (5) | | 12 | | (8) |
| Long Term Incentive Plan Issuances | | 8 | | 15 | | 8 |
| Balance at End of Year | | $332 | | $(100) | | $(501) |
| **Treasury Shares** | | | | | | |
| Balance at Beginning of Year | 44,082 | $(1,705) | | $-- | | $-- |
| Capital Stock Activity: | | | | | | |
| Repurchase of Common Stock | 11,950 | (496) | 22,610 | (1,009) | | -- |
| Stock Forward Repurchase Contract | | -- | 21,489 | (696) | | -- |
| Long Term Incentive Plan Issuances | (195) | 7 | | -- | | -- |
| Stock Option Exercises | (962) | 19 | (17) | -- | | -- |
| Cancellation of Treasury Shares | (54,875) | 2,175 | | -- | | -- |
| Balance at End of Year | -- | $-- | 44,082 | $(1,705) | | $-- |
| **Accumulated Other Comprehensive Income** | | | | | | |
| Balance at Beginning of Year | | $4 | | $-- | | $-- |
| Unrealized Gain(Loss) on Marketable Securities, net of income taxes of $(3), $3, and $0, respectively | | (4) | | 4 | | -- |
| Balance at End of Year | | $-- | | $4 | | $-- |
| Total Shareholders' Equity | | $7,215 | | $1,773 | | $3,057 |
| **Comprehensive Income** | | | | | | |
| Net Income | | $586 | | $570 | | $500 |
| Other Comprehensive Income, net of income taxes | | (4) | | 4 | | -- |
| Total Comprehensive Income | | $582 | | $574 | | $500 |

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data unless otherwise noted)

## 1. Significant Accounting Policies

### Description of Business

On October 20, 2000, Exelon Corporation (Exelon) became the parent corporation for each of PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd). See Note 2 - Merger. Exelon is a utility services holding company engaged, through its subsidiaries, in the production, purchase, transmission, distribution and sale of electricity to 5 million retail customers, and the distribution and sale of natural gas to 425,000 retail customers. Exelon's retail electric service territories are located principally in southeastern Pennsylvania, including the City of Philadelphia, and northern Illinois, including metropolitan Chicago. Exelon also engages in the wholesale marketing of electricity, the provision of utility infrastructure, communications and other utility related services in various regions of the United States.

### Basis of Presentation

The consolidated financial statements of Exelon include the accounts of its majority-owned subsidiaries after the elimination of intercompany transactions. Exelon accounts for its 20% to 50% owned investments and joint ventures, in which it exerts significant influence, under the equity method of accounting. Exelon consolidates its proportionate interest in its jointly owned electric utility plants. Exelon accounts for its less than 20% owned investments under the cost method of accounting. Accounting policies for regulated operations are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Pennsylvania Public Utility Commission (PUC), the Illinois Commerce Commission (ICC), the Federal Energy Regulatory Commission (FERC) and the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA).

Exelon, formed as a wholly owned subsidiary of PECO in 1999, became the parent company of PECO when each share of outstanding common stock of PECO was exchanged for one share of Exelon common stock in connection with the merger. See Note 2 - Merger. In addition, for accounting purposes, PECO was deemed the acquiror in the merger. Accordingly, the financial statements for the periods presented represent the historical financial statements of PECO pursuant to the reorganization and the historical information of the former Unicom entity from October 20, 2000 reflecting the acquisition.

### Accounting for the Effects of Regulation

Exelon accounts for all of its regulated electric and gas operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," requiring Exelon to record the financial statement effects of the rate regulation to which such operations are currently subject. Use of SFAS No. 71 is applicable to the utility operations of Exelon that meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. Exelon believes that it is probable that regulatory assets associated with these operations will be recovered. If a separable portion of Exelon's business no longer meets the provisions of SFAS No. 71, Exelon is required to eliminate the financial statement effects of regulation for that portion.

### 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues

Operating revenues are generally recorded as service is rendered or energy is delivered to customers. At the end of each month, Exelon accrues an estimate for the unbilled amount of energy delivered or services provided to its electric and gas customers. Exelon recognizes contract revenue and profits on long-term fixed-price contracts from its services businesses by the percentage-of-completion method of accounting based on costs incurred as a percentage of estimated total costs of individual contracts.

Purchased Gas Adjustment Clause

PECO's natural gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective quarterly adjustments to rates.

Nuclear Fuel

The cost of nuclear fuel is capitalized and charged to fuel expense using the unit of production method. Estimated costs of nuclear fuel disposal are charged to fuel expense as the related fuel is consumed.

Depreciation, Amortization and Decommissioning

Depreciation is provided over the estimated service lives of property, plant and equipment on a straight line basis. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average service life for each asset category are presented below:

| Asset Category | 2000 | 1999 | 1998 |
|---|---|---|---|
| Electric -- Transmission and Distribution | 4.16% | 1.83% | 1.96% |
| Electric -- Generation | 5.02% | 5.12% | 5.26% |
| Gas | 2.39% | 2.36% | 2.40% |
| Common | 2.10% | 2.13% | 4.54% |
| Other Property and Equipment | 8.11% | 8.61% | 2.80% |

Amortization of regulatory assets is provided over the recovery period as specified in the related regulatory agreement. Goodwill associated with the merger is being amortized on a straight line basis over 40 years. See Note 2 - Merger. Goodwill associated with other acquisitions is being amortized over periods from 10 to 20 years. Accumulated amortization of goodwill was $35 million and $1 million at December 31, 2000 and 1999, respectively.

Exelon's estimate of the costs for decommissioning its nuclear generating stations is currently included in regulated rates. The amounts recovered from customers are deposited in trust accounts and invested for funding of future costs for current and retired plants. Exelon accounts for the current period's cost of decommissioning by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation for its operating nuclear units and a reduction to regulatory assets for its retired units. Exelon believes that the amounts being recovered from customers through electric rates along with the earnings on the trust funds will be sufficient to fully fund its decommissioning obligations.

Capitalized Interest

Exelon uses SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its non-regulated construction projects. Exelon recorded capitalized interest of $2 million, $6 million and $7 million in 2000, 1999 and 1998, respectively.

Allowance for Funds Used During Construction (AFUDC) is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded as a charge to Construction Work in Progress and as a non-cash credit to AFUDC which is included in Other Income and Deductions. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities.

## Income Taxes

Deferred Federal and state income taxes are provided on all significant temporary differences between book bases and tax bases of assets and liabilities, transactions that reflect taxable income in a year different from book income and tax carryforwards. Investment tax credits previously utilized for income tax purposes have been deferred on the Consolidated Balance Sheets and are recognized in book income over the life of the related property. Exelon and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to each of Exelon's subsidiaries within the consolidated group based on the separate return method.

## Gains and Losses on Reacquired Debt

Gains and losses on reacquired debt are recognized in Exelon's Consolidated Statements of Income as incurred. Gains and losses on reacquired debt related to regulated operations incurred prior to January 1, 1998, have been deferred and are being amortized to interest expense over the period approved for ratemaking purposes.

## Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive income is reflected in the Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income.

## Cash and Cash Equivalents

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

## 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. Unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds are reported in accumulated depreciation for operating units and as a reduction of regulatory assets for retired units. At December 31, 2000 and 1999, Exelon had no held-to-maturity or trading securities.

## Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Exelon 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.

Upon retirement, the cost of regulated property plus removal costs less salvage value, are charged to accumulated depreciation by the regulated subsidiaries in accordance with the provisions of SFAS No. 71. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition.

## Capitalized Software Costs

Costs incurred during the application development stage of software projects for software which is developed or obtained for internal use are capitalized. At December 31, 2000 and 1999, capitalized software costs totaled $285 million and $105 million, respectively, net of $53 million and $32 million accumulated amortization, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed ten years. Certain capitalized software is being amortized over fifteen years pursuant to regulatory approval.

## Retail and Wholesale Energy Commitments

In the normal course of business, Exelon utilizes contracts for the forward sale and purchase of energy to manage the utilization of its available generating capability and provision of wholesale energy to its retail affiliates. Exelon also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with the forward energy commodity contracts. Through December 31, 2000, Exelon recognized any gains or losses on forward commodity contracts when the underlying transactions affect earnings. Revenues and expenses associated with market price risk management contracts are amortized over the terms of such contracts.

At December 31, 2000, Exelon's retail and wholesale activities included short-term and long-term commitments, which are carried at the lower of cost or market, 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. Revenue and expense associated with energy commitments is reported at the time the underlying physical transaction affects earnings.

Hedge Accounting

Hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge, with respect to the hedged item. If a derivative instrument ceased to meet the criteria for deferral, any gains or losses are recognized in income.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date for SFAS No. 133 until fiscal years beginning after June 15, 2000. The effect of adopting SFAS No. 133 in the first quarter of 2001 will result in a cumulative after-tax increase in net income of approximately $17 million and other comprehensive income of approximately $21 million. The adoption will also impact the assets and liabilities recorded on the Consolidated Balance Sheets of Exelon and may result in future earnings volatility. The determination of the impact of SFAS No. 133 is based on current interpretations of SFAS No. 133, including interpretations of the Derivatives Implementation Group of the FASB, related to the treatment of electricity capacity contracts. If final guidance, when issued, changes the treatment of electricity capacity contracts, the effects of the implementation of SFAS No. 133 may differ from the amounts disclosed above.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No, 125." This new standard revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125without reconsideration. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and should be applied prospectively. At December 31, 2000, Exelon did not anticipate entering into any transactions that would be subject to the provisions of SFAS No. 140 when it becomes effective.

Reclassifications

Dividends on preferred stock of PECO for 1999 and 1998 have been reclassified to Distributions on Preferred Securities of Subsidiaries, resulting in a deduction before, rather than after, net income. This reclassification reflects the current organizational structure in which PECO is a subsidiary of Exelon. Certain other prior year amounts have been reclassified for comparative purposes.

## 2. Merger

On October 20, 2000, Exelon became the parent corporation for each of PECO and ComEd as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended (Merger Agreement), among PECO, Unicom Corporation (Unicom) and Exelon. Pursuant to the Merger Agreement, (a) each share of outstanding common stock of PECO was exchanged for one share of common stock of Exelon (Share Exchange) and (b) Unicom merged with and into Exelon (Merger and together with the Share Exchange, Merger Transaction). In the Merger Transaction, each share of the outstanding common stock of Unicom was converted into 0.875 shares of common stock of Exelon plus $3.00 in cash. Also pursuant to the Merger Agreement, PECO and Unicom repurchased approximately $1.5 billion of common stock prior to the closing of the Merger Transaction, with Unicom repurchasing approximately $1.0 billion of its common stock, and PECO repurchasing approximately $500 million of its common stock. As a result of the Share Exchange, Exelon became the owner of all of the common stock of PECO. As a result of the Merger, Unicom ceased to exist and its subsidiaries, including ComEd, became subsidiaries of Exelon.

The Merger was accounted for using the purchase method of accounting. The total purchase price was $5,973 million. In connection with the Merger, Exelon issued 148 million shares of common stock in the amount of $5,310 million and paid $507 million in cash to Unicom shareholders pursuant to the terms of the Merger Agreement. The source of the cash consideration was borrowings under an Exelon term loan. In addition, the merger consideration included $111 million of fair value of stock options and awards for certain Unicom employees and $45 million of direct acquisition costs. The cost in excess of net assets acquired was $4,874 million, which will be amortized over forty years. Exelon's results of operations include Unicom's results of operations since October 20, 2000. The purchase price allocation is preliminary and further refinement may occur based upon the final resolution of employee severance obligations. The fair value of the assets acquired, including the cost in excess of net assets acquired, and liabilities assumed in the Merger are as follows:

| | |
|---|---|
| Current Assets (including cash of $974) | $2,751 |
| Property, Plant and Equipment | 7,658 |
| Deferred Debits and Other Assets | 5,773 |
| Cost in excess of net assets acquired | 4,874 |
| Current Liabilities | (2,406) |
| Long-Term Debt | (7,419) |
| Deferred Credits and Other Liabilities | (4,930) |
| Preferred Securities of Subsidiaries | (328) |
| Total purchase price | $5,973 |

Selected unaudited pro forma combined results of operations for the years ended December 31, 2000 and 1999, assuming the Merger Transaction occurred on January 1, 2000 and 1999, respectively, are presented as follows:

| | 2000 | 1999 |
|---|---|---|
| | (unaudited) | |
| Total revenues | $13,508 | $12,225 |
| Net income | $1,216 | $1,156 |
| Net income per common share (basic) | $3.81 | $3.62 |
| Net income per common share (diluted) | $3.77 | $3.58 |

Merger related costs of $367 million ($220 million, net of income taxes) or $0.69 per common share (basic) and $0.68 per common share (diluted) have been excluded from the pro forma information above. Pro forma information assumes the effects of Unicom's 1999 fossil plant sale and the issuance of transition bonds and notes occurred at the beginning of 1999. The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the Merger Transaction been consummated as of the dates indicated, nor are they necessarily indicative of future operating results.

Merger-Related Costs

In association with the Merger Transaction, 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 $152 million of direct incremental costs and $124 million for employee costs. Direct incremental costs represent expenses directly associated with completing the Merger Transaction, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance payments and pension and postretirement benefits provided under Exelon's Merger Separation Plan (MSP) for eligible employees who are expected to be involuntarily terminated before October 2002 due to integration activities of the merged companies.

Included in the purchase price allocation is a liability for exit costs of $307 million for additional employee costs and additional 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. The employee costs include employee severance, actuarially determined pension and post-retirement costs, and relocation and other benefits of $128 million, $158 million and $21 million, respectively. The involuntary terminations are a result of merger integration and reengineering of processes, primarily in the areas of corporate support, generation, and energy delivery. The $307 million estimated liability is subject to a final determination of the level of benefits to be provided to a portion of the employees whose positions are expected to be eliminated as a result of the merger but are not eligible for the MSP. Adjustments to the liability to reflect final determination of benefit levels will be recorded as an adjustment to goodwill.

Approximately 2,900 positions have been identified to be eliminated as a result of the Merger Transaction. Exelon anticipates that $282 million of employee costs will be funded from its pension and postretirement benefit plans and $149 million will be funded from general corporate funds. At December 31, 2000, the reserve balance for employee severance, relocation and other benefits was $144 million and is expected to be expended by October 2002.

## 3. Acquisitions

Sithe Energies, Inc. Acquisition

On December 18, 2000, Exelon acquired 49.9% of the outstanding common stock of Sithe Energies, Inc. (Sithe) for $704 million, with an option to purchase the remaining common stock outstanding exercisable between December 2002 and December 2005, at a price to be determined based on prevailing market conditions.

Sithe is an independent power generator in North America utilizing primarily fossil and hydro generation. The purchase involves approximately 10,000 megawatts (MW) of generation consisting of 3,800 MW of existing merchant generation, 2,500 MW under construction, and another 3,700 MW of generation in various stages of development, as well as Sithe's domestic marketing and development businesses. The generation assets are located primarily in Massachusetts and New York, but also include plants in Pennsylvania, California, Colorado and Idaho, as well as Canada and Mexico.

Exelon Infrastructure Services, Inc. Acquisitions

In 2000, Exelon Infrastructure Services, Inc. (EIS), an unregulated majority owned subsidiary of Exelon, acquired the stock or assets of seven utility service contracting companies for an aggregate purchase price of approximately $245 million, net of cash acquired of $9 million, including EIS common stock valued at $14 million. The acquisitions were accounted for using the purchase method of accounting. The initial estimate of the excess of purchase price over the fair value of net assets acquired was approximately $216 million.

The allocation of purchase price to the fair value of assets acquired and liabilities assumed in these acquisitions is as follows:

| | |
|---|---|
| Current Assets (net of cash acquired) | $ 63 |
| Property, Plant and Equipment | 17 |
| Cost in excess of net assets acquired | 216 |
| Current Liabilities | (51) |
| Total | $ 245 |

Cost in excess of net assets acquired associated with EIS acquisitions is being amortized over 20 years.

At December 31, 2000 and 1999, Current Assets includes $70 million and $48 million, respectively, of Costs and Earnings in Excess of Billings on uncompleted contracts and Current Liabilities includes $23 million and $9 million, respectively, of Billings and Earnings in Excess of Costs on uncompleted contracts.

AmerGen Energy Company, LLC

In August 2000, AmerGen Energy Company LLC (AmerGen), a joint venture with British Energy, Inc., a wholly owned subsidiary of British Energy plc, (British Energy), completed the purchase of Oyster Creek Nuclear Generating Facility (Oyster Creek) from GPU, Inc. (GPU) for $10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs not to exceed $89 million, including the cost of fuel, for a refueling outage that occurred in 2000. AmerGen will repay these costs to GPU in nine equal annual installments beginning in August 2001. 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%. AmerGen believes that the amount of the trust fund and investment earnings thereon will be sufficient to meet its decommissioning obligation. GPU is purchasing the electricity generated by Oyster Creek pursuant to a three-year power purchase agreement.

4. Accounting Change

During the fourth quarter of 2000, as a result of the synchronization of accounting policies with Unicom in connection with the Merger Transaction, PECO changed its method of accounting for nuclear outage costs to record such costs as incurred. Previously, PECO accrued these costs over the operating unit cycle. As a result of the change in accounting method for nuclear outage costs, PECO recorded income of $24 million, net of income taxes of $16 million. The change is reported as a cumulative effect of a change in accounting principle on the Consolidated Statements of Income as of December 31, 2000, representing the balance of the nuclear outage cost reserve at January 1, 2000. On a pro forma basis, Exelon reported net income for 1999 and 1998 would have been decreased by $6 million, or $0.03 per diluted share and increased by $11 million, or $0.05 per diluted share, respectively.

5. Regulatory Issues

ComEd

In 2000, the phased process to implement competition in the electric industry continued as mandated by the requirements of the Illinois restructuring legislation.

Customer Choice

As of December 31, 2000, all non-residential customers were eligible to choose a new electric supplier or elect the purchase power option which allows the purchase of electric energy from ComEd at market-based prices. ComEd's residential customers become eligible to choose a new electric supplier or elect the purchase power option in May 2002. As of December 31, 2000, over 9,500 non-residential customers, representing approximately 27% of ComEd's retail kilowatthour sales for the twelve months prior to the introduction of open-access, had elected to receive their electric energy from a residential electric supplier or had chosen the purchase power option. ComEd is unable to predict the long term impact of customer choice on results of operations.

Rate Reductions and Caps

The Illinois restructuring legislation also provided a 15% residential base rate reduction effective August 1, 1998 with an additional 5% residential base rate reduction to be implemented in October 2001. Notwithstanding the rate reduction and subject to certain earnings tests, a rate freeze will generally be in effect until at least January 1, 2005. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois restructuring legislation, if the earned return on common equity of a utility during this period exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the 30-Year Treasury Bond rate plus 8.5% in the years 2000 through 2004. Earnings for purposes of ComEd's rate cap include ComEd's net income calculated in accordance with generally accepted accounting principles and may include accelerated amortization of regulatory assets and the amortization of goodwill. As a result of the Illinois restructuring legislation, ComEd has recorded a $385 million regulatory asset that it expects to fully recover and amortize by the end of 2003. The utility's earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. The earnings sharing provision is applicable only to ComEd's earnings. ComEd did not trigger in 2000 and does not currently expect to trigger the earnings sharing provisions of the Illinois restructuring legislation in the years 2001 through 2004.

PECO

In 2000, the phased process to implement competition in the electric industry continued as mandated by the requirements of the PUC's Final Restructuring Order.

Customer Choice

The PUC's Final Restructuring Order provided for the phase-in of customer choice of electric generation supplier (EGS) for all customers: one-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remaining one-third on January 1, 2000. The Final Restructuring Order also established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a PECO affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including residential customers assigned to an EGS as a provider of last resort default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process. On January 1, 2001, the 35% threshold was met for all three customer classes as a result of agreements assigning customers to New Power Company and Green Mountain as providers of last resort default service. At December 31, 2000, approximately 18% of PECO's residential load, 46% of its commercial load and 42% of its industrial load were purchasing generation from an alternative generation supplier.

Rate Reductions and Caps

Under the Final Restructuring Order, retail electric rates were capped at year-end 1996 levels (system-wide average of 9.96 cents/kilowatt hour (kWh)) through June 2005. The Final Restructuring Order required PECO to reduce its retail electric rates by 8% from the 1996 system-wide average rate on January 1, 1999. This rate reduction decreased to 6% on January 1, 2000 until January 1, 2001. The transmission and distribution rate component were capped at a system-wide average rate of 2.98 cents/kWh through June 30, 2005. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, will remain in effect through 2010.

On March 16, 2000, the PUC issued an order authorizing PECO to securitize up to an additional $1 billion of its authorized stranded costs recovery. In accordance with the terms of that order, PECO will provide its retail customers with rate reductions in the total amount of $60 million beginning on January 1, 2001. This rate reduction will be effective for calendar year 2001 only.

Under a comprehensive settlement agreement in connection with achieving regulatory approval of the Merger Transaction, PECO agreed to $200 million in rate reductions for all customers in Pennsylvania over the period January 1, 2002 through 2005 and extended the rate caps on PECO's retail electric distribution charges through December 31, 2006.

6. Supplemental Financial Information

Supplemental Income Statement Information

Taxes Other Than Income

| | For the Year Ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Gross receipts | $159 | $155 | $156 |
| Real estate | 68 | 72 | 51 |
| Payroll | 41 | 28 | 30 |
| Other | 54 | 7 | 43 |
| Total | $ 322 | $ 262 | $ 280 |

Other, Net

| | For the Year Ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Interest income | $ 62 | $ 52 | $ 26 |
| Gain (loss) on disposition of assets, net | (19) | (1) | (5) |
| Settlement of power purchase agreement | 6 | -- | 14 |
| AFUDC | 3 | 4 | 4 |
| Other | 1 | 4 | (38) |
| Total | $ 53 | $ 59 | $ 1 |

Supplemental Cash Flow Information

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Cash paid during the year: | | | |
| Interest (net of amount capitalized) | $519 | $350 | $385 |
| Income taxes (net of refunds) | $272 | $304 | $347 |
| Noncash investing and financing: | | | |
| Issuance of Exelon shares for Unicom | $5,310 | -- | -- |
| Capital lease obligations incurred | -- | -- | $38 |
| Issuance of EIS stock | $14 | $11 | -- |
| Depreciation and amortization: | | | |
| Property, plant and equipment | $325 | $207 | $190 |
| Nuclear fuel | 149 | 104 | 62 |
| Regulatory assets | 53 | -- | 424 |
| Decommissioning | 46 | 29 | 29 |
| Goodwill | 34 | 1 | -- |
| Leased property | -- | 17 | 60 |
| | $607 | $358 | $765 |

Supplemental Balance Sheet Information

Investments

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Investment in Sithe | $ 704 | $ -- |
| Direct financing leases | 409 | -- |
| Energy services and other ventures | 185 | 57 |
| Affordable housing projects | 88 | -- |
| Emission allowances | 82 | -- |
| Investment in AmerGen | 44 | 40 |
| Investments in subsidiaries and joint ventures | 36 | -- |
| Communications ventures | 35 | 24 |
| Marketable securities | -- | 9 |
| Total | $1,583 | $ 130 |

Prior to the merger, Unicom entered into a like-kind exchange transaction. Under the transaction, Unicom invested approximately $1.6 billion in passive generating station leases with two separate entities. The generating stations were leased back to such entities as part of the transaction. For financial accounting purposes, the investments are accounted for as direct financing lease investments. Under the terms of the lease agreements, Exelon received a prepayment of $1.2 billion in the fourth quarter, which reduced the investment in the lease. There are no minimum scheduled lease payments to be received over the next five years. The components of the net investment in the direct financing leases as of December 31, 2000 are as follows:

| | |
|---|---|
| Total minimum lease payments | $1,492 |
| Less: Unearned income | 1,083 |
| | $ 409 |

Regulatory Assets

| | December 31, 2000 | 1999 |
|---|---|---|
| Competitive transition charge | $ 5,218 | $ 5,275 |
| Recoverable deferred income taxes (see Note 13) | 632 | 638 |
| Nuclear decommissioning costs | 719 | -- |
| Recoverable transition costs | 385 | -- |
| Loss on reacquired debt | 99 | 71 |
| Compensated absences | 4 | 4 |
| Non-pension postretirement benefits | 78 | 84 |
| Long-Term Regulatory Assets | 7,135 | 6,072 |
| Deferred energy costs (current asset) | 86 | 7 |
| Total | $ 7,221 | $6,079 |

At December 31, 2000 and 1999, the Competitive Transition Charge (CTC) includes the unamortized balance of $4.8 billion and $3.9 billion, respectively, of Intangible Transition Property (ITP) sold to PECO Energy Transition Trust (PETT) in connection with the securitization of PECO's stranded cost recovery. ITP represents the irrevocable right of PECO or its assignee to collect non-bypassable charges from customers to recover stranded costs.

## 7. Earnings Per Share

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):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Average Common Shares Outstanding | 202 | 196 | 223 |
| Assumed Exercise of Stock Options | 2 | 1 | 1 |
| Average Dilutive Common Shares Outstanding | 204 | 197 | 224 |

## 8. Accounts Receivable

Accounts receivable -- Customer at December 31, 2000 and 1999 included unbilled operating revenues of $498 million and $153 million, respectively. The allowance for uncollectible accounts at December 31, 2000 and 1999 was $200 million and $112 million, respectively.

Accounts receivable -- Other at December 31, 2000 and 1999 included demand notes receivable from a communications investment in the amount of $153 million. The average interest rate on the notes receivable was 6.22% and 5.66% at December 31, 2000 and 1999, respectively. Interest income related to the notes receivable was $10 million and $6 million in 2000 and 1999, respectively.

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $225 million of designated accounts receivable until November 2005. At December 31, 2000, PECO had sold a $225 million interest in accounts receivable, consisting of a $185 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and a $40 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. See Note 12 - Long-Term Debt. PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the $225 million interest, which, if not met, requires PECO to deposit cash in order to satisfy such requirements. At December 31, 2000 and 1999, PECO met this requirement and was not required to make any cash deposits.

9. Property, Plant, and Equipment

A summary of property, plant and equipment by classification as of December 31, 2000 and 1999 is as follows:

| | 2000 | 1999 |
|---|---|---|
| Electric -- Transmission & Distribution | $9,447 | $3,953 |
| Electric -- Generation | 4,044 | 1,942 |
| Gas | 1,181 | 1,176 |
| Common | 408 | 408 |
| Nuclear Fuel | 2,341 | 1,551 |
| Construction Work in Progress | 1,189 | 232 |
| Leased Property | 2 | 2 |
| Other Property, Plant and Equipment | 1,274 | 152 |
| Total Property, Plant and Equipment | 19,886 | 9,416 |
| Less Accumulated Depreciation (including accumulated amortization of nuclear fuel of $1,445 and $1,281 in 2000 and 1999, respectively) | 6,950 | 4,412 |
| Property, Plant and Equipment, net | $12,936 | $5,004 |

10. Jointly Owned Electric Utility Plant

Exelon's undivided ownership interests in jointly owned electric utility plant at December 31, 2000, were as follows:

| | Production Plant | | | | | |
|---|---|---|---|---|---|---|
| | Peach Bottom | Salem | Keystone | Conemaugh | Quad Cities | Transmission and Other Plant |
| Operator | PECO | PSE&G | Sithe | Sithe | ComEd | Various Co. |
| Participating Interest | 46.25% | 42.59% | 20.99% | 20.72% | 75% | 21% to 43% |
| Exelon's Share: | | | | | | |
| Utility Plant | $378 | $3 | $120 | $190 | $84 | $80 |
| Accumulated Depreciation | $214 | $3 | $94 | $118 | $ 2 | $31 |
| Construction Work in Progress | $41 | $41 | $4 | $10 | $38 | $-- |

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

On September 30, 1999, Exelon reached an agreement to purchase an additional 7.51% ownership interest in Peach Bottom Atomic Power Station (Peach Bottom) from Atlantic City Electric Company and Delmarva Power & Light Company for $18 million. On December 24, 2000, Exelon completed the purchase of Delmarva Power & Light Company's 3.755% interest in Peach Bottom for $9 million. The purchase of Atlantic City Electric Company's ownership interest is still pending regulatory approval which is expected in 2001.

## 11. Notes Payable, Banks

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Average borrowings | $186 | $242 | $209 |
| Average interest rates, computed on daily basis | 6.62% | 5.62% | 5.83% |
| Maximum borrowings outstanding | $500 | $728 | $525 |
| Average interest rates, at December 31 | 7.18% | 6.80% | 6.17% |

Exelon, PECO and ComEd entered into a $2 billion unsecured revolving credit facility on December 20, 2000 with a group of banks. This credit facility is used principally to support the commercial paper programs of Exelon, PECO and ComEd. At December 31, 2000 and 1999, the amount of commercial paper outstanding was $161 million and $142 million, respectively. At December 31, 1999, Exelon had $21 million of borrowings on lines of credit.

In October 2000, Exelon obtained a $1.25 billion term loan due June 30, 2001 to finance the cash consideration paid to former holders of Unicom common stock in connection with the Merger Transaction and to finance the purchase of its 49.9% interest in Sithe in December 2000. Interest rates on the advances from the credit facility are based on the London Interbank Offering Rate (LIBOR) as of the date of the advance. On December 31, 2000, Exelon had $1,210 million outstanding on this term loan which is also reflected in Notes Payable, Bank on the Consolidated Balance Sheet. The average interest rate on this term loan for the period it was outstanding in 2000 was 7.6%. Exelon expects to refinance this term loan on or before its due date.

## 12. Long Term Debt

| | Rates | Maturity Date | At December 31, 2000 | At December 31, 1999 |
|---|---|---|---|---|
| ComEd Transitional Trust Notes Series 1998-A: | 5.29%-5.74% | 2001-2008 | $2,720 | $ -- |
| PETT Bonds Series 1999-A: | | | | |
| Fixed rates | 5.48%-6.13% | 2001-2008(a) | 2,706 | 2,826 |
| Floating rates | 6.955%-7.03% | 2004-2007(a) | 1,132 | 1,132 |
| PETT Bonds Series 2000-A: | 7.18%-7.65% | 2001-2009(a) | 1,000 | -- |
| First and Refunding Mortgage Bonds (b) (c): | | | | |
| Fixed rates | 4.40%-10.25% | 2001-2024 | 4,260 | 1,538 |
| Floating rates | 4.28% | 2011-2015 | 154 | 154 |
| Notes payable | 6.40%-9.20% | 2002-2023 | 1,459 | 38 |
| Pollution control notes: | | | | |
| Fixed rates | 5.875% | 2007 | 46 | -- |
| Floating rates | 4.73% | 2009-2034 | 461 | 369 |
| Notes payable - accounts receivable agreement | 6.66% | 2005 | 40 | 49 |
| Sinking fund debentures | 2.875%-4.75% | 2001-2011 | 27 | -- |
| Total Long-Term debt (d) | | | 14,005 | 6,106 |
| Unamortized debt discount and premium, net | | | (139) | (9) |
| Due within one year | | | (908) | (128) |
| Long-Term debt | | | $12,958 | $5,969 |

(a) The maturity date represents the expected final payment date which is the date when all principal and interest of the related class of transition bonds is expected to be paid in full in accordance with the expected amortization schedule for the applicable class. The date when all principal and interest must be paid in full for the PETT Bonds Series 1999-A and 2000-A are 2003 through 2009 and 2003 through 2010, respectively. The current portion of transition bonds is based upon the expected maturity date.

(b) Utility plant of PECO and ComEd is subject to the liens of their respective mortgage indentures.

(c) Includes first mortgage bonds issued under the PECO and ComEd mortgage indentures securing pollution control notes.

(d) Long-term debt maturities in the period 2001 through 2005 and thereafter are as follows:

| | |
|---|---|
| 2001 | $ 908 |
| 2002 | 1,491 |
| 2003 | 1,622 |
| 2004 | 1,101 |
| 2005 | 1,426 |
| Thereafter | 7,457 |
| Total | $14,005 |

In 1999, PECO entered into treasury forwards associated with the anticipated issuance of the Series 2000-A Transition Bonds. On May 2, 2000, these instruments were settled with net proceeds to the counterparties of $13 million which has been deferred and is being amortized over the life of the Series 2000-A Transition Bonds as an increase to interest expense consistent with Exelon's hedge accounting policy.

In 1998, PECO entered into treasury forwards and forward starting interest rate swaps to manage interest rate exposure associated with the anticipated issuance of the Series 1999-A Transition Bonds. On March 18, 1999, these instruments were settled with net proceeds of $80 million to PECO which were deferred and are being amortized over the life of the Series 1999-A Transition Bonds as a reduction of interest expense consistent with Exelon's hedge accounting policy. At December 31, 2000 and 1999, the unamortized net gain was $51 million and $71 million, respectively.

In 2000, 1999 and 1998, Exelon incurred extraordinary charges aggregating $6 million ($4 million, net of tax), $62 million ($37 million, net of tax) and $34 million ($20 million, net of tax), respectively, consisting of prepayment premiums and the write-offs of unamortized deferred financing costs associated with the early retirement of debt.

## 13. Income Taxes

Income tax expense (benefit) is comprised of the following components:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Included in operations: | | | |
| Federal | | | |
| Current | $ 163 | $ 293 | $ 358 |
| Deferred | 163 | 6 | (109) |
| Investment tax credit, net | (15) | (14) | (18) |
| State | | | |
| Current | -- | 72 | 95 |
| Deferred | 30 | 1 | (6) |
| | $ 341 | $ 358 | $ 320 |
| Included in extraordinary item: | | | |
| Federal | | | |
| Current | (2) | (19) | (11) |
| State | | | |
| Current | -- | (6) | (3) |
| | $ (2) | $ (25) | $ (14) |
| Included in cumulative effect of a change in accounting principle: | | | |
| Federal | | | |
| Deferred | 13 | -- | -- |
| State | | | |
| Deferred | 3 | -- | -- |
| | $ 16 | $ -- | $ -- |

The total income tax provisions, excluding the extraordinary item and cumulative effect of a change in accounting principle, differed from amounts computed by applying the federal statutory tax rate to pre-tax income as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | $ 566 | $ 607 | $ 520 |
| Income Taxes | 341 | 358 | 320 |
| Income Before Income Taxes Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | $ 907 | $ 965 | $ 840 |
| Income taxes on above at federal statutory rate of 35% | $ 317 | $ 338 | $ 294 |
| Increase (decrease) due to: | | | |
| Property basis differences | 1 | (8) | (10) |
| State income taxes, net of federal income tax benefit | 19 | 46 | 58 |
| Amortization of investment tax credit | (15) | (14) | (18) |
| Amortization of goodwill | 8 | -- | -- |
| Prior period income taxes | 4 | (7) | (13) |
| Dividends on PECO Preferred Stock | 4 | 4 | 4 |
| Other, net | 3 | (1) | 5 |
| Income Taxes | $ 341 | $ 358 | $ 320 |
| Effective income tax rate | 37.6% | 37.1% | 38.1% |

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Depreciation and amortization | $ 200 | $ 23 | $ 140 |
| Deferred generation charges recoverable | (23) | -- | (175) |
| Transition bond hedge | 29 | (29) | -- |
| Deferred energy costs | 10 | (9) | (2) |
| Retirement and separation programs | (31) | 7 | (51) |
| Merger cost | (25) | -- | -- |
| Alternative minimum tax credits | (4) | -- | (42) |
| Other | 37 | 15 | 15 |
| Subtotal | 193 | 7 | (115) |
| Cumulative effect of a change in accounting principle | 16 | -- | -- |
| Total | $209 | $ 7 | $(115) |

The tax effect of temporary differences giving rise to Exelon's net deferred tax liability as of December 31, 2000 and 1999 is as follows:

| | 2000 | 1999 |
|---|---|---|
| Nature of temporary difference: | | |
| Plant basis difference | $4,535 | $2,703 |
| Deferred investment tax credit | 330 | 286 |
| Deferred debt refinancing costs | 48 | 37 |
| Deferred gain on like kind exchange | 466 | -- |
| Deferred pension and postretirement obligations | (437) | (148) |
| Other, net | (265) | (167) |
| Deferred income taxes (net) on the balance sheet | $4,677 | $2,711 |

In accordance with SFAS No. 71, Exelon has recorded a recoverable deferred income tax asset of $632 million and $638 million at December 31, 2000 and 1999, respectively. These balances are applicable only to regulated assets, as a result of the discontinuance of SFAS No. 71 for Exelon's electric generation operations. These recoverable deferred income taxes include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the ratemaking policies of the PUC and ICC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates.

The Internal Revenue Service is currently auditing certain Exelon's subsidiaries federal tax returns for 1996 through 1999. The current audits are not expected to have an adverse impact on financial condition or results of operations of Exelon.

## 14. Retirement Benefits

Exelon and its subsidiaries have defined benefit pension plans and postretirement benefit plans applicable to essentially all PECO and ComEd employees and certain employees of other subsidiaries. Benefits under these plans 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 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 the plans.

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Change in Benefit Obligation: | | | | |
| Net benefit obligation at beginning of year | $ 2,054 | $ 2,310 | $ 798 | $ 848 |
| Service cost | 39 | 29 | 24 | 19 |
| Interest cost | 219 | 154 | 83 | 57 |
| Plan participants' contributions | -- | -- | 1 | -- |
| Plan amendments | -- | 25 | -- | -- |
| Actuarial (gain)loss | 228 | (300) | 144 | (77) |
| Acquisitions | 4,231 | -- | 1,228 | -- |
| Curtailments/Settlements | (74) | -- | 4 | -- |
| Special termination benefits | 217 | -- | 48 | -- |
| Gross benefits paid | (219) | (164) | (55) | (49) |
| Net benefit obligation at end of year | $ 6,695 | $ 2,054 | $ 2,275 | $ 798 |
| Change in Plan Assets: | | | | |
| Fair value of plan assets at beginning of year | $ 2,982 | $ 2,745 | $ 244 | $ 223 |
| Actual return on plan assets | 173 | 400 | (7) | 20 |
| Employer contributions | 2 | 1 | 84 | 50 |
| Plan participants' contributions | -- | -- | 1 | -- |
| Acquisitions | 4,062 | -- | 921 | -- |
| Gross benefits paid | (219) | (164) | (55) | (49) |
| Fair value of plan assets at end of year | $ 7,000 | $ 2,982 | $ 1,188 | $ 244 |

| | | | | |
|---|---|---|---|---|
| Funded status at end of year | $ 305 | $ 928 | $(1,087) | $ (554) |
| Miscellaneous adjustment | -- | -- | 5 | -- |
| Unrecognized net actuarial (gain)loss | (777) | (1,129) | 143 | (43) |
| Unrecognized prior service cost | 77 | 85 | -- | -- |
| Unrecognized net transition obligation (asset) | (21) | (26) | 122 | 154 |
| Net amount recognized at end of year | $ (416) | $ (142) | $ (817) | $ (443) |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| Prepaid benefit cost | $ 151 | $ 71 | 2 | N/A |
| Accrued benefit cost | (567) | (213) | (819) | (443) |
| Net amount recognized at end of year | $ (416) | $ (142) | $ (817) | $ (443) |

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Weighted-average assumptions as of December 31, | | | | | | |
| Discount rate | 7.60% | 8.00% | 7.00% | 7.60% | 8.00% | 7.00% |
| Expected return on plan assets | 9.50% | 9.50% | 9.50% | 8.00% | 8.00% | 8.00% |
| Rate of compensation increase | 4.30% | 5.00% | 5.00% | 4.30% | 5.00% | 5.00% |
| Health care cost trend on covered charges | N/A | N/A | N/A | 7.00% decreasing to ultimate trend of 5.0% in 2005 | 8.00% decreasing to ultimate trend of 5.0% in 2006 | 6.50% decreasing to ultimate trend of 5.0% in 2002 |

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Components of net periodic benefit cost (benefit): | | | | | | |
| Service cost | $ 39 | $ 29 | $ 30 | $ 24 | $ 19 | $ 18 |
| Interest cost | 219 | 154 | 154 | 83 | 57 | 54 |
| Expected return on assets | (316) | (222) | (210) | (34) | (16) | (13) |
| Amortization of: | | | | | | |
| Transition obligation (asset) | (4) | (4) | (5) | 12 | 12 | 15 |
| Prior service cost | 7 | 5 | 6 | -- | -- | -- |
| Actuarial (gain)loss | (26) | (8) | (7) | -- | -- | -- |
| Curtailment charge (credit) | (12) | -- | (62) | 24 | -- | 53 |
| Settlement charge (credit) | (16) | -- | (13) | -- | -- | -- |
| Net periodic benefit cost (benefit) | $(109) | $ (46) | $(107) | $ 109 | $ 72 | $ 127 |
| Special termination benefit charge | $ 217 | $ -- | $ 114 | $ 48 | $ -- | $ 30 |

| | |
|---|---|
| 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 | $ 34 |
| on postretirement benefit obligation | $ 325 |
| Effect of a one percentage point decrease in assumed health care cost trend | |
| on total service and interest cost components | $ (27) |
| on postretirement benefit obligation | $ (263) |

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.

During 2000, costs were recognized for special termination benefits in connection with the enhanced retirement and severance benefits provided under to employees expected to be terminated as a result of the Merger Transaction. Special termination benefits of $217 million represented PECO's accelerated separation and enhancement benefits of $96 million and ComEd's accelerated liability increase of $121 million inclusive of $96 million for separation benefits and $25 million for plan enhancements under Exelon's MSP. In addition, Exelon recognized settlement and curtailment credits of $28 million in connection with Exelon's MSP. During 1999, all retirees and beneficiaries who began receiving benefit payments prior to January 1, 1994 were granted a cost-of-living adjustment resulting in a $25 million increase in the projected benefit obligation. During 1998, costs were recognized for special termination benefits in connection with the retirement incentives and enhanced severance benefits provided under the Early Retirement and Separation Program.

Exelon provides certain health care and life insurance benefits for retired employees. Exelon employees become eligible for these benefits if they retire from Exelon with ten years of service. Certain benefits for active employees are provided by several insurance companies whose premiums are based upon the benefits paid during the year.

Additionally, Exelon maintains a nonqualified supplemental retirement plan which covers any excess pension benefits that would be payable to management employees under the qualified plan but which are limited by the Internal Revenue Code. The fair value of plan assets excludes $24 million held in a grantor trust as of December 31, 2000 for the payment of benefits under the supplemental plan and $9 million held in a grantor trust as of December 31, 2000 for the payment of postretirement medical benefits.

Exelon sponsors 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 matches a percentage of the employee contribution up to certain limits. The cost of Exelon's matching contribution to the savings plans totaled $17 million, $7 million, and $7 million in 2000, 1999, and 1998, respectively.

## 15. Preferred Securities of Subsidiaries

### Preferred and Preference Stock

At December 31, 2000 and 1999, Series Preference Stock of PECO, no par value, consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 2000 and 1999, cumulative Preferred Stock of PECO, no par value, consisted of 15,000,000 shares authorized and the amounts set forth below:

| | Current Redemption Price (a) | Shares Outstanding 2000 | Shares Outstanding 1999 | Amount 2000 | Amount 1999 |
|---|---|---|---|---|---|
| | | At December 31, | | | |
| Series (without mandatory redemption) | | | | | |
| $4.68 | $104.00 | 150,000 | 150,000 | $ 15 | $ 15 |
| $4.40 | 112.50 | 274,720 | 274,720 | 27 | 27 |
| $4.30 | 102.00 | 150,000 | 150,000 | 15 | 15 |
| $3.80 | 106.00 | 300,000 | 300,000 | 30 | 30 |
| $7.48 | (b) | 500,000 | 500,000 | 50 | 50 |
| | | 1,374,720 | 1,374,720 | 137 | 137 |
| Series (with mandatory redemption) | | | | | |
| $6.12 | (c) | 370,800 | 556,200 | 37 | 56 |
| Total preferred stock | | 1,745,520 | 1,930,920 | $174 | $193 |

(a) Redeemable, at the option of PECO, at the indicated dollar amounts per share, plus accrued dividends.

(b) None of the shares of this series is subject to redemption prior to April 1, 2003.

(c) PECO exercised its right to double (to 370,800 shares, from the original 185,400 share requirement) the first annual sinking fund requirement for the $6.12 Series on August 2, 1999. PECO made the annual sinking fund payment of $18.5 million on August 2, 2000. Future annual sinking fund requirements in 2001 and 2002 are $18.5 million.

At December 31, 2000, ComEd Series $1.425 Convertible Preferred Stock, ComEd Prior Preferred Stock and ComEd Preference Stock consisted of 51,773, 850,000 and 6,810,451 shares authorized, respectively, none of which were outstanding.

Company Obligated Mandatorily Redeemable Preferred Securities

At December 31, 2000 and 1999, subsidiary trusts of PECO and ComEd had outstanding the following preferred securities:

| | Mandatory Redemption Date | Distribution Rate | Liquidation Value | Trust Securities Outstanding At December 31, 2000 | Trust Securities Outstanding At December 31, 1999 | Amount 2000 | Amount 1999 |
|---|---|---|---|---|---|---|---|
| PECO Energy Capital Trust II | 2037 | 8.00% | $ 25 | 2,000,000 | 2,000,000 | $ 50 | $ 50 |
| PECO Energy Capital Trust III | 2028 | 7.38% | 1,000 | 78,105 | 78,105 | 78 | 78 |
| Total | | | | 2,078,105 | 2,078,105 | $ 128 | $ 128 |
| ComEd Financing I | 2035 | 8.48% | $ 25 | 8,000,000 | -- | $ 200 | -- |
| ComEd Financing II | 2027 | 8.50% | 1,000 | 150,000 | -- | 150 | -- |
| Unamortized Discount | | | | | | (22) | -- |
| Total | | | | 8,150,000 | -- | $ 328 | -- |

The securities issued by the PECO trusts represent Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS) having a distribution rate and liquidation value equivalent to the trust securities. The COMRPS are the sole assets of these trusts and represent limited partnership interests of PECO Energy Capital, L.P. (Partnership), a Delaware limited partnership. Each holder of a trust's securities is entitled to withdraw the corresponding number of COMRPS from the trust in exchange for the trust securities so held. Each series of COMRPS is supported by PECO's deferrable interest subordinated debentures, held by the Partnership, which bear interest at rates equal to the distribution rates on the related series of COMRPS.

ComEd Financing I and ComEd Financing II are wholly owned subsidiary trusts of ComEd. Each ComEd trust's sole assets are subordinated deferrable interest securities issued by ComEd bearing interest rates equivalent to the distribution rate of the related trust security.

The interest expense on the debentures and deferrable interest securities is included in Distributions on Preferred Securities of Subsidiaries in the Consolidated Statements of Income and is deductible for tax purposes.

## 16. Common Stock

At December 31, 2000 and 1999, common stock without par value consisted of 600,000,000 and 500,000,000 shares authorized and 319,005,112 and 181,271,692 shares outstanding, respectively.

### Stock Repurchase

In January 2000, in connection with the Merger Agreement, PECO entered into a forward purchase agreement to purchase $500 million of its common stock from time to time. Settlement of this forward purchase agreement was, at PECO's election, on a physical, net share or net cash basis. In May 2000, PECO utilized a portion of the proceeds from the securitization of its stranded cost recovery to physically settle this agreement, resulting in the repurchase of 12 million shares of common stock for $496 million. In connection with the settlement of this agreement, PECO received $1 million in accumulated dividends on the repurchased shares and paid $6 million of interest.

During 1997, PECO's Board of Directors authorized the repurchase of up to 25 million shares of its common stock from time to time through open-market, privately negotiated and/or other types of transactions in conformity with the rules of the SEC. Pursuant to these authorizations, PECO entered into forward purchase agreements to be settled from time to time, at PECO's election, on a physical, net share or net cash basis. PECO utilized the proceeds from the securitization of a portion of its stranded cost recovery in the first quarter of 1999, to physically settle these agreements, resulting in the purchase of 21 million shares of common stock for $696 million. In connection with the settlement of these agreements, PECO received $18 million in accumulated dividends on the repurchased shares and paid $6 million of interest.

Stock-Based Compensation Plans

Exelon maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees and previously maintained a broad-based incentive program for certain other employees. The types of long-term incentive awards that have been granted under the LTIP are non-qualified options to purchase shares of Exelon's common stock and common stock awards. The types of long-term incentive awards that have been granted under the broad-based incentive program are non-qualified options to purchase shares of Exelon's common stock. At December 31, 2000, there were 9,000,000 options authorized for issuance under the LTIP and 2,000,000 options authorized under the broad-based incentive program. Exelon uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If Exelon elected to account for its stock-based compensation plans based on SFAS No. 123, it would have recognized compensation expense of $60 million, $10 million and $6 million, for 2000, 1999 and 1998, respectively. In addition, net income would have been $526 million, $560 million and $494 million for 2000, 1999 and 1998, respectively, and earnings per share would have been $2.58, $2.84 and $2.20 for 2000, 1999 and 1998, respectively.

The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Options granted under the LTIP and the broad-based incentive program become exercisable upon attainment of a target share value and/or time. All options expire 10 years from the date of grant. Information with respect to the LTIP and the broad-based incentive program at December 31, 2000 and changes for the three years then ended, is as follows:

| | Shares 2000 | Weighted Average Exercise Price (per share) 2000 | Shares 1999 | Weighted Average Exercise Price (per share) 1999 | Shares 1998 | Weighted Average Exercise Price (per share) 1998 |
|---|---|---|---|---|---|---|
| Balance at January 1 | 6,065,897 | $ 31.91 | 4,663,008 | $ 27.71 | 3,816,794 | $ 26.14 |
| Options granted/assumed | 11,089,051(a) | 46.09 | 2,049,789 | 39.32 | 3,087,558 | 28.37 |
| Options exercised | (1,725,058) | 31.79 | (568,000) | 25.17 | (2,130,744) | 23.86 |
| Options canceled | (142,031) | 39.95 | (78,900) | 38.14 | (110,600) | 26.40 |
| Balance at December 31 | 15,287,859 | 42.13 | 6,065,897 | 31.91 | 4,663,008 | 27.71 |
| Exercisable at December 31 | 4,953,942 | 30.04 | 3,331,903 | 25.60 | 3,462,550 | 23.91 |
| Weighted average fair value of options granted during year | | $ 16.62 | | $ 8.24 | | $ 3.43 |

(a) Includes 5.3 million options converted in the Merger.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 1999, and 1998, respectively:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Dividend yield | 3.6% | 5.7% | 6.8% |
| Expected volatility | 36.8% | 30.5% | 21.4% |
| Risk-free interest rate | 5.9% | 5.9% | 5.5% |
| Expected life (years) | 5.0 | 9.5 | 9.5 |

At December 31, 2000, the options outstanding, based on ranges of exercise prices, were as follows:

| Range of Exercise Prices | Options Outstanding: Number Outstanding | Options Outstanding: Weighted Average Remaining Contractual Life (years) | Options Outstanding: Weighted Average Exercise Price | Options Exercisable: Number Exercisable | Options Exercisable: Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $15.01-$20.00 | 680,700 | 6.81 | $19.67 | 680,700 | $19.67 |
| $20.01-$25.00 | 1,055,009 | 6.71 | 22.60 | 1,055,009 | 22.60 |
| $25.01-$30.00 | 1,021,016 | 4.27 | 27.22 | 1,021,016 | 27.22 |
| $30.01-$35.00 | 159,044 | 8.70 | 33.52 | 72,469 | 33.40 |
| $35.01-$40.00 | 6,240,998 | 8.51 | 37.96 | 1,615,955 | 37.42 |
| $40.01-$45.00 | 1,460,992 | 8.38 | 41.18 | 490,908 | 40.86 |
| $45.01-$60.00 | 4,670,100 | 9.79 | 59.24 | 17,885 | 47.34 |
| Total | 15,287,859 | | | 4,953,942 | |

Exelon issued 195,725 shares, 120,300 shares and 7,000 shares of common stock awards during 2000, 1999 and 1998, respectively. Vesting for the common stock awards is over a period not to exceed 10 years from the grant date. Compensation cost of $9 million, $5 million and $0.2 million, respectively, associated with these awards is amortized to expense over the vesting period. The related accumulated amortization was approximately $7 million and $2 million at December 31, 2000 and 1999, respectively.

## 17. Financial Instruments

Fair values of financial instruments, including liabilities, are estimated based on quoted market prices for the same or similar issues. The carrying amounts and fair values of Exelon's financial instruments as of December 31, 2000 and 1999 were as follows:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Non-derivatives: | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 840 | $ 840 | $ 228 | $ 228 |
| Trust accounts for decommissioning nuclear plants | 3,109 | 3,109 | 408 | 408 |
| Marketable securities | -- | -- | 9 | 9 |
| Liabilities | | | | |
| Long-term debt (including amounts due within one year) | 13,866 | 14,336 | 6,097 | 5,822 |
| Preferred Securities of Subsidiaries | 630 | 601 | 321 | 254 |
| Derivatives: | | | | |
| Interest rate swaps | -- | (19) | -- | 36 |
| Forward interest rate swaps | -- | 40 | -- | 66 |
| Energy swap contract | 34 | 34 | -- | -- |

Financial instruments which potentially subject Exelon to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. Exelon places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit

Insurance Corporation limit. Concentrations of credit risk with respect to customer accounts receivable are limited due to Exelon's large number of customers and their dispersion across many industries.

The fair value of derivatives generally reflects the estimated amounts that Exelon would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for all of Exelon's derivatives.

Exelon entered into interest rate swaps relating to two variable rate series of transition bonds in the aggregate notional amount of $1.1 billion with an average interest rate of 6.65%. Exelon has also entered into forward starting interest rate swaps relating to two variable rate series of transition bonds in the aggregate notional amount of $1.1 billion with an average interest rate of 6.01%. In anticipation of the refinancing of a portion of the two variable rate series of transition bonds in the first quarter of 2001, Exelon settled $318 million of the forward starting interest rate swaps in December 2000. The notional amount of derivatives do not represent amounts that are exchanged by the parties and, thus, are not a measure of Exelon's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates.

Exelon would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. Exelon does not expect that counterparties to the interest rate swaps will fail to meet these obligations, given their high credit ratings. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. Exelon's interest rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached.

## 18. Commitments and Contingencies

### Capital Commitments

Exelon estimates that it will spend approximately $2.7 billion for capital expenditures and other investments in 2001. Exelon has commitments to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2001. In addition, Exelon and British Energy have each agreed to provide up to $100 million to AmerGen at any time for operating expenses. See Note 3 - Acquisitions: AmerGen Energy Company, LLC.

### Nuclear Insurance

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. Through its subsidiaries, Exelon 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.

Exelon 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 is required by the Nuclear Regulatory Commission (NRC) to maintain, to provide for decommissioning the facility. Exelon is unable to predict the timing of the availability of insurance proceeds to Exelon and the amount of such proceeds which would be available. Under the terms of the various insurance agreements, Exelon could be assessed up to $69 million for losses incurred at any plant insured by the insurance companies. Exelon 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's financial condition and results of operations.

Additionally, through its subsidiaries, Exelon 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's maximum share of any assessment is $18 million per year.

In addition, Exelon 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 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.

Nuclear Decommissioning and Spent Fuel Storage

Exelon's current estimate of its nuclear facilities' decommissioning cost is $6.9 billion. Decommissioning costs are recoverable through regulated rates. Under rates in effect through December 31, 2000, Exelon collected and expensed approximately $46 million in 2000 from customers which was accounted for as a component of depreciation expense and accumulated depreciation for operating units and regulatory assets for retired units. At December 31, 2000 and 1999, $2.6 billion and $383 million, respectively, was included in accumulated depreciation. In order to fund future decommissioning costs, at December 31, 2000 and 1999, Exelon held $3.1 billion and $408 million, respectively, in trust accounts which are included as Investments in Exelon's Consolidated Balance Sheets and include both net unrealized and realized gains. Net unrealized gains of $539 million and $45 million, respectively, were recognized in accumulated depreciation in Exelon's Consolidated Balance Sheets at December 31, 2000 and 1999, respectively. Net realized gains of $11 million and $14 million were also recognized in accumulated depreciation in Exelon's Consolidated Balance Sheets at December 31, 2000 and 1999, respectively. Exelon believes that the amounts being recovered from customers through regulated rates and earnings on nuclear decommissioning trust funds will be sufficient to fully fund the unrecorded portion of its decommissioning obligation.

In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the power purchase agreements between ComEd and 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 Generation. 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 amount of recovery in the ICC order is less than the $84 million annual amount ComEd recovered in 2000. The ICC order is currently pending appeal in the Illinois Appellate Court.

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 kilowatthour 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's consideration of additional dry storage alternatives.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998. ComEd subsequently moved for partial summary judgment on liability of its breach of contract claim. In August 2000, the United States Court of Appeals for the Federal Circuit decided two other similar cases against the Government, rejecting the Government's jurisdictional defense and granting partial summary judgment on liability for the plaintiff utilities in one of those cases. The Court later denied the Government's request for rehearing. Following that ruling, ComEd and seven other utility plaintiffs filed motions in their respective cases in the Court to set a coordinated discovery schedule on damages. On January 8, 2001, the Government filed a motion to reassign all of the SNF cases to one Court judge for purposes of consolidating the cases to address certain damage issues. Those motions are pending before the Court. ComEd has also requested that the Court grant its pending summary judgment motion on liability, particularly in light of the Federal Circuit's decision in August 2000.

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

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 Contract, ComEd has elected to pay the one-time fee of $277 million, with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2000, the liability for the one-time fee with interest was $810 million.

Energy Commitments

Exelon's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long, intermediate and short-term contracts. Exelon maintains a net positive supply of energy and capacity, through ownership of generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. Exelon 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 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 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 is to provide Exelon with physical power supply to enable it to deliver energy to meet customer needs. Except for hedging purposes, Exelon does not use financial contracts in its wholesale marketing activities. In 2001, Exelon anticipates the use of financial contracts to manage the risk surrounding trading for profit activities.

Exelon has entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives, and retail load aggregators. Exelon also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. Exelon provides delivery of its energy to these customers through access to its transmission assets or rights for firm transmission.

In addition, Exelon has entered into long-term power purchase agreements with Independent Power Producers (IPP) under which Exelon makes fixed capacity payments to the IPP in return for exclusive rights to the energy and capacity of the generating units for a fixed period. The terms of the long-term power purchase agreements enable Exelon to supply the fuel and dispatch energy from the plants.

At December 31, 2000, Exelon had long-term commitments, in millions of megawatt-hours (MWh) and dollars, relating to the purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others as expressed in the following tables:

| | Power Only | | | |
|---|---|---|---|---|
| | Purchases | | Sales | |
| | MWh | Dollars | MWh | Dollars |
| 2001 | 17 | $362 | 36 | $ 840 |
| 2002 | 11 | 167 | 18 | 371 |
| 2003 | 9 | 135 | 15 | 327 |
| 2004 | 5 | 71 | 8 | 190 |
| 2005 | 4 | 61 | 6 | 148 |
| Thereafter | 5 | 81 | 4 | 87 |
| Total | | $877 | | $1,963 |

| | Capacity Purchases in Dollars | Capacity Sales in Dollars | Transmission Rights Purchases in Dollars |
|---|---|---|---|
| 2001 | $ 856 | $ 32 | $ 119 |
| 2002 | 881 | 21 | 35 |
| 2003 | 786 | 16 | 32 |
| 2004 | 778 | 3 | 25 |
| 2005 | 414 | 3 | 25 |
| Thereafter | 5,200 | 8 | 80 |
| Total | $8,915 | $ 83 | $316 |

In 1997, PECO entered into a power supply contract in Massachusetts. In 1999, PECO determined that, based upon anticipated prices of energy in Massachusetts through the remaining life of the power supply contract, it had incurred a loss of approximately $36 million.

PECO entered into a final settlement of litigation in 1999 that resulted in a restructuring of power purchase agreements between PECO and a cogeneration facility. The settlement also required PECO to contribute its partnership interest in the cogeneration facility to the remaining partners. Accordingly, PECO recorded a charge to earnings of $15 million for the transfer of its partnership interest which is recorded in Other Income and Deductions on Exelon's Consolidated Statements of Income. The settlement also resolved related litigation with Westinghouse Power Generation and the Chase Manhattan Bank. Subsequently, in 1999, PECO revised its estimate for losses associated with the cogeneration facility power purchase agreements and reversed approximately $26 million of reserves, which consisted principally of the remaining balance of a reserve previously recognized in 1997.

Environmental Issues

Exelon'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, through its subsidiaries, is generally liable for the costs of remediating environmental contamination of property now or formerly owned by Exelon and of property contaminated by hazardous substances generated by Exelon. Exelon owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. Exelon has identified 72 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. Exelon is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2000 and 1999, Exelon had accrued $172 million and $57 million, respectively, for environmental investigation and remediation costs, including $140 million and $32 million, respectively, for MGP investigation and remediation, that currently can be reasonably estimated. The increases were primarily attributable to the acquisition of Unicom. Exelon cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by Exelon, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases

Minimum future operating lease payments as of December 31, 2000 were:

| | |
|---|---|
| 2001 | $ 82 |
| 2002 | 81 |
| 2003 | 78 |
| 2004 | 63 |
| 2005 | 61 |
| Remaining years | 633 |
| Total minimum future lease payments | $998 |

Rental expense under operating leases totaled $41 million, $54 million, and $69 million in 2000, 1999 and 1998, respectively.

Early Retirement and Separation Program

At December 31, 1998, PECO incurred a charge of $125 million ($74 million, net of income taxes) for its Early Retirement and Separation Program relating to 1,157 employees. The estimated cost of separation benefits was approximately $47 million. Retirement benefits of approximately $78 million are being paid to the retirees over their lives. All cash payments related to the Early Retirement and Separation Program were funded through the assets of PECO's Service Annuity Plan. The Early Retirement and Separation Program terminated on June 30, 2000.

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. This action seeks the full purchase price of the 30% interest in the River Bend nuclear plant, $50 million, plus interest and consequential damages. While PECO cannot predict the outcome of this matter, PECO believes that it validly exercised its right of termination and did not breach the agreement.

FERC Municipal Request for Refund. Three of ComEd's wholesale municipal customers filed a complaint and request for refund with the FERC alleging that ComEd failed to properly adjust their rates, as provided for under the terms of their electric service contracts, to track certain refunds made to ComEd's retail customers in the years 1992 through 1994. In the third quarter of 1998, the FERC granted the complaint and directed that refunds be made, with interest. ComEd filed a request for rehearing. On January 11, 2001, the FERC issued its Order on Rehearing Requesting Submission of Additional Information. Responsive pleadings have been filed by all parties and final FERC action is still pending. ComEd's management believes an adequate reserve has been established in connection with the case.

Service Interruptions. In August 1999, three class action lawsuits were filed, and subsequently consolidated, in the Circuit Court of Cook County, Illinois seeking damages for personal injuries, property damage and economic losses from ComEd related to a series of service interruptions that occurred in the summer 1999. The combined effect of these interruptions resulted in over 168,000 customers losing service for more than 4 hours. Conditional class certification has been approved by the Court for the sole purpose of exploring settlement talks. A hearing on a motion filed by ComEd to dismiss the complaints is expected in March 2001. A portion of any settlement or verdict may be covered by insurance and discussions with the carrier are ongoing. Exelon's management believes adequate reserves have been established in connection with these cases.

Reliability Investigation. In 1999, the ICC opened an investigation regarding the design and reliability of ComEd's transmission and distribution system, which was expanded during 2000 to include a circuit breaker fire that occurred in October 2000 at a ComEd substation. The ICC has issued several reports in that investigation covering the summer 1999 outages as well as the transmission and distribution system. These reports include recommendations and an implementation timetable. The recommendations are not legally binding on ComEd, however, the ICC may enforce them through litigation. Two more reports are anticipated in early 2001, and the investigation is expected to conclude by mid-2001. Since summer 1999, ComEd has devoted significant resources to improving the reliability of its transmission and distribution system. Exelon's management believes that the likelihood of a successful material claim resulting from the investigation is remote.

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, and against ComEd for a declaratory order 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 intends to vigorously contest this matter.

Pennsylvania Real Estate Tax Appeals

Exelon is involved in tax appeals regarding two of its nuclear facilities, Limerick (Montgomery County) and Peach Bottom (York County). Exelon is also involved in the tax appeal for Three Mile Island Unit No. 1 Nuclear Generating Facility (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.

Other Tax Issues

The Illinois Department of Revenue has issued a notice of tax liability to ComEd alleging deficiencies in Illinois invested capital tax payments for the years 1998-1997. The alleged deficiencies, including interest and penalties, totaled approximately $54 million as of December 31, 2000. ComEd has protested the notices, and the matter is currently pending. Interest will continue to accumulate on the alleged tax deficiencies.

General

Exelon 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's financial condition or results of operations.

## 19. Segment Information

Exelon evaluates the performance of its business segments based on Earnings Before Interest Expense and Income Taxes (EBIT). Exelon's general corporate expenses and certain non-recurring expenses are excluded from the internal evaluation of reportable segment performance. General corporate expenses include the cost of executive management, corporate accounting and finance, information technology, risk management, human resources and legal functions and employee benefits.

Energy Delivery consists of the retail electricity distribution and transmission businesses of ComEd in northern Illinois and PECO in southeastern Pennsylvania and the natural gas distribution business of PECO. Generation consists of electric generating facilities, power marketing operations and Exelon's interests in Sithe and AmerGen. Enterprises consists of competitive retail energy sales, energy and infrastructure services, communications and related investments. Effective January 1, 2001, Enterprises will also include the operations of Exelon Energy, which were previously included in Generation. An analysis and reconciliation of Exelon's business segment information to the respective information in the consolidated financial statements are as follows:

| | Energy Delivery | Generation | Enterprises | Corporate | Intersegment Revenues | Consolidated |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| 2000 | $ 4,511 | $ 3,393 | $ 974 | $ -- | $ (1,379) | $ 7,499 |
| 1999 | $ 3,265 | $ 2,896 | $ 116 | $ -- | $ (799) | $ 5,478 |
| 1998 | $ 3,799 | $ 2,523 | $ 12 | $ -- | $ (1,009) | $ 5,325 |
| EBIT: | | | | | | |
| 2000 | $ 1,602 | $ 474 | $ (71) | $ (466)(a) | $ -- | $ 1,539 |
| 1999 | $ 1,386 | $ 239 | $ (41) | $ (190) | $ -- | $ 1,394 |
| 1998 | $ 1,378 | $ 233 | $ (139) | $ (257)(a) | $ -- | $ 1,215 |
| Depreciation and Amortization: | | | | | | |
| 2000 | $ 223 | $ 201 | $ 34 | $ -- | $ -- | $ 458 |
| 1999 | $ 108 | $ 125 | $ 4 | $ -- | $ -- | $ 237 |
| 1998 | $ 533 | $ 110 | $ -- | $ -- | $ -- | $ 643 |
| Capital Expenditures: | | | | | | |
| 2000 | $ 367 | $ 288 | $ 70 | $ 27 | $ -- | $ 752 |
| 1999 | $ 205 | $ 245 | $ 1 | $ 40 | $ -- | $ 491 |
| 1998 | $ 175 | $ 205 | $ 6 | $ 29 | $ -- | $ 415 |
| Total Assets: | | | | | | |
| 2000 | $27,424 | $ 5,734 | $ 2,277 | $ (838) | $ -- | $ 34,597 |
| 1999 | $10,306 | $ 1,734 | $ 640 | $ 407 | $ -- | $ 13,087 |
| 1998 | $ 9,759 | $ 1,687 | $ 217 | $ 385 | $ -- | $ 12,048 |

(a) Includes non-recurring items of $276 million for merger-related expenses in 2000 and $125 million in 1998 for the Early Retirement and Separation Program.

Equity in losses of communications investments of $45 million, $38 million and $54 million for 2000, 1999, and 1998, respectively, are included in the Enterprises business unit's EBIT. Equity in earnings(losses) of AmerGen of $4 million and ($0.5) million for 2000 and 1999, respectively, are included in the Generation business unit's EBIT.

## 20. Quarterly Data (Unaudited)

The data shown below include all adjustments which Exelon considers necessary for a fair presentation of such amounts:

| | Operating Revenues | | Operating Income | | Income Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | | Net Income | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Quarter ended: | | | | | | | | |
| March 31 | $1,352 | $1,267 | $343(b) | $365 | $ 163 | $154 | $192(c) | $154 |
| June 30 | 1,385 | 1,213 | 313(b) | 245 | 122 | 93 | 116(c) | 66 |
| September 30 | 1,629 | 1,729 | 449(b) | 471 | 235 | 228 | 232(c) | 228 |
| December 31 (a) | 3,133 | 1,269 | 422(b) | 292 | 46 | 132 | 46 | 122 |

| | Average Shares Outstanding | | Earnings Per Share Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle | | Earnings Per Share Net Income | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| | (in millions) | | | | | |
| Quarter ended: | | | | | | |
| March 31 | 184 | 223 | $0.89 | $0.69 | $1.04 | $0.69 |
| June 30 | 174 | 192 | 0.70 | 0.48 | 0.68 | 0.34 |
| September 30 | 170 | 187 | 1.38 | 1.22 | 1.37 | 1.22 |
| December 31 (a) | 283 | 184 | 0.16 | 0.71 | 0.16 | 0.66 |

(a) Reflects the effects of the acquisition of Unicom as of October 20, 2000.

(b) Reflects a $276 million charge ($177 million, net of income taxes) for merger-related costs consisting of $152 million of direct incremental costs and $124 million for employee costs. Incremental merger expenses of $11 million, $9 million, $13 million and $13 million for each of the four quarters in 2000, respectively, were reflected in Operating and Maintenance Expense.

(c) Reflects a Cumulative Effect of a Change in Accounting Principle of $24 million as a result of PECO's change in accounting method for nuclear outages to recognize such expense as incurred rather than accrued over the operating cycle. See Note 4 - Accounting Change. The effects of the Change in Accounting Principle were $29 million, or $0.16 per share, $(3) million, or $(0.02) per share, and $(2) million, or $(0.01) per share in each of the first three quarters in 2000, respectively.

## 21. Subsequent Events

Restructuring

During January 2001, Exelon undertook a corporate restructuring to separate Exelon's generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets of ComEd and PECO were transferred to separate subsidiaries of Exelon. Restructuring will streamline the process for managing, operating and tracking financial performance of each business segment.

PETT Refinancing

On March 1, 2001, Exelon refinanced $806 million of floating rate Series 1999-A Transition Bonds through the issuance by PETT of fixed-rate transition bonds.