

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2003

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

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

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

The number of shares outstanding of each registrant's common stock as of June 30, 2003 was:

|   |                |
|---|----------------|
| Exelon Corporation Common Stock, without par value          | 325,848,491    |
| Commonwealth Edison Company Common Stock, \$12.50 par value | 127,016,429    |
| PECO Energy Company Common Stock, without par value         | 170,478,507    |
| Exelon Generation Company, LLC                              | not applicable |

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

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#### FILING FORMAT

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

#### FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by a registrant include those factors discussed herein, as well as the items discussed in (a) the Registrants' 2002 Annual Report on Form 10-K - ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Business Outlook and the Challenges in Managing Our Business for each of Exelon, ComEd, PECO and Generation, (b) the Registrants' 2002 Annual Report on Form 10-K - ITEM 8. Financial Statements and Supplementary Data: Exelon - Note 19, ComEd - Note 16, PECO - Note 18 and Generation - Note 13 and (c) other factors discussed in filings with the United States Securities and Exchange Commission (SEC) by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

#### WHERE TO FIND MORE INFORMATION

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

## EXELON CORPORATION

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

| (in millions, except per share data)   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2003                        | 2002     | 2003                      | 2002     |
| OPERATING REVENUES   | \$ 3,721                    | \$ 3,519 | \$ 7,795                  | \$ 6,876 |
| OPERATING EXPENSES   |                             |          |                           |          |
| Purchased power  | 746                         | 699      | 1,586                     | 1,311    |
| Purchased power from unconsolidated affiliate  | 110                         | 60       | 177                       | 116      |
| Fuel   | 531                         | 364      | 1,356                     | 860      |
| Operating and maintenance  | 1,100                       | 1,070    | 2,212                     | 2,137    |
| Depreciation and amortization  | 275                         | 332      | 549                       | 667      |
| Taxes other than income  | 159                         | 181      | 358                       | 367      |
| Total operating expenses   | 2,921                       | 2,706    | 6,238                     | 5,458    |
| OPERATING INCOME   | 800                         | 813      | 1,557                     | 1,418    |
| OTHER INCOME AND DEDUCTIONS  |                             |          |                           |          |
| Interest expense   | (220)                       | (241)    | (443)                     | (490)    |
| Distributions on preferred securities of subsidiaries  | (10)                        | (11)     | (22)                      | (23)     |
| Equity in earnings of unconsolidated affiliates  | 15                          | 9        | 33                        | 22       |
| Other, net   | 9                           | 194      | (134)                     | 222      |
| Total other income and deductions  | (206)                       | (49)     | (566)                     | (269)    |
| INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES   | 594                         | 764      | 991                       | 1,149    |
| INCOME TAXES   | 222                         | 279      | 370                       | 427      |
| INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES  | 372                         | 485      | 621                       | 722      |
| CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes of \$69 and \$(90) for the six months ended June 30, 2003 and 2002, respectively) | --                          | --       | 112                       | (230)    |
| NET INCOME   | 372                         | 485      | 733                       | 492      |
| OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)  |                             |          |                           |          |
| Cash flow hedge adjustment   | 62                          | (16)     | (84)                      | (68)     |
| Foreign currency translation adjustment  | 1                           | --       | 2                         | --       |
| Unrealized gain (loss) on marketable securities  | 3                           | (72)     | (2)                       | (87)     |
| SFAS No. 143 transition adjustment   | --                          | --       | 168                       | --       |
| Interest in other comprehensive income (loss) of unconsolidated affiliates   | 17                          | (7)      | 8                         | (1)      |
| Total other comprehensive income (loss)  | 83                          | (95)     | 92                        | (156)    |
| TOTAL COMPREHENSIVE INCOME   | \$ 455                      | \$ 390   | \$ 825                    | \$ 336   |
| AVERAGE SHARES OF COMMON STOCK OUTSTANDING - Basic   | 325                         | 322      | 324                       | 322      |
| AVERAGE SHARES OF COMMON STOCK OUTSTANDING - Diluted   | 327                         | 324      | 327                       | 324      |
| EARNINGS PER AVERAGE COMMON SHARE:   |                             |          |                           |          |
| BASIC:   |                             |          |                           |          |
| Income before cumulative effect of changes in accounting principles  | \$ 1.14                     | \$ 1.50  | \$ 1.92                   | \$ 2.24  |
| Cumulative effect of changes in accounting principles  | --                          | --       | 0.34                      | (0.71)   |
| Net income   | \$ 1.14                     | \$ 1.50  | \$ 2.26                   | \$ 1.53  |
| DILUTED:   |                             |          |                           |          |
| Income before cumulative effect of changes in accounting principles  | \$ 1.14                     | \$ 1.50  | \$ 1.90                   | \$ 2.23  |
| Cumulative effect of changes in accounting principles  | --                          | --       | 0.34                      | (0.71)   |
| Net income   | \$ 1.14                     | \$ 1.50  | \$ 2.24                   | \$ 1.52  |
| DIVIDENDS PER COMMON SHARE   | \$ 0.46                     | \$ 0.44  | \$ 0.92                   | \$ 0.88  |



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

| (in millions)  | Six Months Ended June 30, |                |
|--|---------------------------|----------------|
|  | 2003                      | 2002           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                           |                |
| Net income   | \$ 733                    | \$ 492         |
| Adjustments to reconcile net income to net cash flows provided by operating activities:  |                           |                |
| Depreciation, amortization and accretion, including nuclear fuel   | 846                       | 848            |
| Cumulative effect of changes in accounting principles (net of income taxes)  | (112)                     | 230            |
| Gain on sale of investments  | --                        | (199)          |
| Provision for uncollectible accounts   | 43                        | 67             |
| Deferred income taxes  | (100)                     | (10)           |
| Equity in earnings of unconsolidated affiliates  | (33)                      | (22)           |
| Impairment of investments  | 238                       | 38             |
| Impairment of goodwill and long-lived assets   | 53                        | --             |
| Net realized (gains) losses on nuclear decommissioning trust funds   | (12)                      | 21             |
| Other operating activities   | 12                        | 40             |
| Changes in assets and liabilities:   |                           |                |
| Accounts receivable  | 66                        | (281)          |
| Inventories  | (16)                      | (3)            |
| Accounts payable, accrued expenses and other current liabilities   | (62)                      | 364            |
| Changes in payables and receivables from unconsolidated affiliates   | 19                        | 12             |
| Other current assets   | (214)                     | (143)          |
| Deferred energy costs  | (24)                      | 49             |
| Pension and non-pension postretirement benefits obligations  | (146)                     | 10             |
| Other noncurrent assets and liabilities  | 1                         | 125            |
| <b>Net cash flows provided by operating activities</b>   | <b>1,292</b>              | <b>1,638</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                           |                |
| Capital expenditures   | (1,019)                   | (1,028)        |
| Proceeds from liquidated damages   | 86                        | --             |
| Proceeds from nuclear decommissioning trust funds  | 1,262                     | 889            |
| Investment in nuclear decommissioning trust funds  | (1,368)                   | (943)          |
| Note receivable from unconsolidated affiliate  | 35                        | (75)           |
| Proceeds from sale of investment   | 6                         | 285            |
| Acquisition of generating plants   | --                        | (443)          |
| Other investing activities   | 11                        | 47             |
| <b>Net cash flows used in investing activities</b>   | <b>(987)</b>              | <b>(1,268)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                           |                |
| Issuance of long-term debt   | 1,813                     | 701            |
| Retirement of long-term debt   | (1,479)                   | (697)          |
| Change in short-term debt  | (100)                     | 110            |
| Issuance of preferred securities of subsidiaries   | 300                       | --             |
| Retirement of preferred securities of subsidiaries   | (300)                     | --             |
| Dividends paid on common stock   | (285)                     | (280)          |
| Payment on acquisition note payable to Sithe Energies, Inc.  | (210)                     | --             |
| Proceeds from employee stock plans   | 91                        | 60             |
| Change in restricted cash  | (29)                      | (26)           |
| Other financing activities   | (85)                      | (10)           |
| <b>Net cash flows used in financing activities</b>   | <b>(284)</b>              | <b>(142)</b>   |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>21</b>                 | <b>228</b>     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>  | <b>469</b>                | <b>485</b>     |
| <b>CASH AND CASH EQUIVALENTS INCLUDING CASH CLASSIFIED AS HELD FOR SALE<br/>CASH CLASSIFIED AS HELD FOR SALE ON THE CONSOLIDATED BALANCE SHEET</b> | <b>490</b>                | <b>713</b>     |
|  | <b>(26)</b>               | <b>--</b>      |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>\$ 464</b>             | <b>\$ 713</b>  |

See Condensed Combined Notes to Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (in millions)                               | June 30,<br>2003 | December 31,<br>2002 |
|---|------------------|----------------------|
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| ASSETS                                      |                  |                      |
| CURRENT ASSETS                              |                  |                      |
| Cash and cash equivalents                   | \$ 464           | \$ 469               |
| Restricted cash                             | 425              | 396                  |
| Accounts receivable, net                    |                  |                      |
| Customer                                    | 1,903            | 2,076                |
| Other                                       | 246              | 284                  |
| Receivable from unconsolidated affiliate    | --               | 39                   |
| Inventories, at average cost                |                  |                      |
| Fossil fuel                                 | 172              | 175                  |
| Materials and supplies                      | 309              | 306                  |
| Other                                       | 579              | 380                  |
| Assets held for sale                        | 352              | --                   |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| Total current assets                        | 4,450            | 4,125                |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| PROPERTY, PLANT AND EQUIPMENT, NET          | 20,323           | 17,126               |
| DEFERRED DEBITS AND OTHER ASSETS            |                  |                      |
| Regulatory assets                           | 5,414            | 5,993                |
| Nuclear decommissioning trust funds         | 3,316            | 3,053                |
| Investments                                 | 1,189            | 1,403                |
| Goodwill                                    | 4,735            | 4,992                |
| Other                                       | 861              | 793                  |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| Total deferred debits and other assets      | 15,515           | 16,234               |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| TOTAL ASSETS                                | \$ 40,288        | \$ 37,485            |
| <hr style="border-top: 3px double black;"/> |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements



EXELON CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (in millions)  | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>  |                  |                      |
| LIABILITIES AND SHAREHOLDERS' EQUITY                 |                  |                      |
| CURRENT LIABILITIES                                  |                  |                      |
| Notes payable  | \$ 581           | \$ 681               |
| Note payable to unconsolidated affiliate             | 326              | 534                  |
| Long-term debt due within one year                   | 2,391            | 1,402                |
| Accounts payable                                     | 1,762            | 1,607                |
| Accrued expenses                                     | 1,205            | 1,354                |
| Other  | 283              | 296                  |
| Liabilities held for sale                            | 81               | --                   |
| <hr/>  |                  |                      |
| Total current liabilities                            | 6,629            | 5,874                |
| <hr/>  |                  |                      |
| LONG-TERM DEBT                                       | 12,480           | 13,127               |
| MANDATORILY REDEEMABLE PREFERRED SECURITIES          | 100              | --                   |
| DEFERRED CREDITS AND OTHER LIABILITIES               |                  |                      |
| Deferred income taxes                                | 3,973            | 3,702                |
| Unamortized investment tax credits                   | 295              | 301                  |
| Nuclear decommissioning liability for retired plants | --               | 1,395                |
| Asset retirement obligation                          | 2,444            | --                   |
| Pension obligation                                   | 1,747            | 1,959                |
| Non-pension postretirement benefits obligation       | 943              | 877                  |
| Spent nuclear fuel obligation                        | 863              | 858                  |
| Regulatory liabilities                               | 810              | --                   |
| Other  | 1,037            | 978                  |
| <hr/>  |                  |                      |
| Total deferred credits and other liabilities         | 12,112           | 10,070               |
| <hr/>  |                  |                      |
| COMMITMENTS AND CONTINGENCIES                        |                  |                      |
| MINORITY INTEREST OF CONSOLIDATED SUBSIDIARIES       | 79               | 77                   |
| PREFERRED SECURITIES OF SUBSIDIARIES                 | 510              | 595                  |
| SHAREHOLDERS' EQUITY                                 |                  |                      |
| Common stock   | 7,169            | 7,059                |
| Deferred compensation                                | --               | (1)                  |
| Retained earnings                                    | 2,475            | 2,042                |
| Accumulated other comprehensive income (loss)        | (1,266)          | (1,358)              |
| <hr/>  |                  |                      |
| Total shareholders' equity                           | 8,378            | 7,742                |
| <hr/>  |                  |                      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY           | \$ 40,288        | \$ 37,485            |
| <hr/>  |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)   | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|---|-----------------------------|---------------|---------------------------|---------------|
|   | 2003                        | 2002          | 2003                      | 2002          |
| <b>OPERATING REVENUES</b>   |                             |               |                           |               |
| Operating revenues  | \$ 1,345                    | \$ 1,469      | \$ 2,756                  | \$ 2,773      |
| Operating revenues from affiliates  | 16                          | 12            | 29                        | 23            |
| <b>Total operating revenues</b>   | <b>1,361</b>                | <b>1,481</b>  | <b>2,785</b>              | <b>2,796</b>  |
| <b>OPERATING EXPENSES</b>   |                             |               |                           |               |
| Purchased power   | 5                           | 6             | 11                        | 12            |
| Purchased power from affiliate  | 528                         | 547           | 1,099                     | 1,079         |
| Operating and maintenance   | 193                         | 191           | 425                       | 386           |
| Operating and maintenance from affiliates   | 28                          | 29            | 58                        | 71            |
| Depreciation and amortization   | 96                          | 133           | 190                       | 268           |
| Taxes other than income   | 68                          | 73            | 148                       | 146           |
| <b>Total operating expenses</b>   | <b>918</b>                  | <b>979</b>    | <b>1,931</b>              | <b>1,962</b>  |
| <b>OPERATING INCOME</b>   | <b>443</b>                  | <b>502</b>    | <b>854</b>                | <b>834</b>    |
| <b>OTHER INCOME AND DEDUCTIONS</b>  |                             |               |                           |               |
| Interest expense  | (106)                       | (127)         | (215)                     | (252)         |
| Distributions on mandatorily redeemable preferred securities                                | (6)                         | (7)           | (14)                      | (15)          |
| Interest income from affiliates   | 7                           | 8             | 13                        | 16            |
| Other, net  | 5                           | 6             | 21                        | 13            |
| <b>Total other income and deductions</b>  | <b>(100)</b>                | <b>(120)</b>  | <b>(195)</b>              | <b>(238)</b>  |
| <b>INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b> | <b>343</b>                  | <b>382</b>    | <b>659</b>                | <b>596</b>    |
| <b>INCOME TAXES</b>   | <b>138</b>                  | <b>151</b>    | <b>263</b>                | <b>236</b>    |
| <b>INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>                  | <b>205</b>                  | <b>231</b>    | <b>396</b>                | <b>360</b>    |
| <b>CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (net of income taxes of \$0)</b>   | <b>--</b>                   | <b>--</b>     | <b>5</b>                  | <b>--</b>     |
| <b>NET INCOME</b>   | <b>205</b>                  | <b>231</b>    | <b>401</b>                | <b>360</b>    |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)</b>                              |                             |               |                           |               |
| Cash flow hedge adjustment  | (3)                         | (9)           | 28                        | (6)           |
| Unrealized gain (loss) on marketable securities   | 1                           | (2)           | 1                         | (2)           |
| Foreign currency translation adjustment   | 1                           | --            | 2                         | --            |
| <b>Total other comprehensive income (loss)</b>  | <b>(1)</b>                  | <b>(11)</b>   | <b>31</b>                 | <b>(8)</b>    |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | <b>\$ 204</b>               | <b>\$ 220</b> | <b>\$ 432</b>             | <b>\$ 352</b> |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)   | Six Months Ended June 30, |               |
|---|---------------------------|---------------|
|   | 2003                      | 2002          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |               |
| Net income  | \$ 401                    | \$ 360        |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                           |               |
| Depreciation and amortization   | 190                       | 268           |
| Cumulative effect of a change in accounting principle (net of income taxes)             | (5)                       | --            |
| Provision for uncollectible accounts  | 20                        | 11            |
| Deferred income taxes   | 60                        | 75            |
| Other operating activities  | 25                        | 29            |
| Changes in assets and liabilities:  |                           |               |
| Accounts receivable   | 9                         | (158)         |
| Inventories   | 2                         | --            |
| Accounts payable, accrued expenses and other current liabilities                        | (115)                     | 51            |
| Changes in receivables and payables to affiliates                                       | (94)                      | 63            |
| Other current assets  | (2)                       | (1)           |
| Pension and non-pension postretirement benefits obligations                             | (72)                      | 15            |
| Other noncurrent assets and liabilities   | 11                        | 27            |
| <b>Net cash flows provided by operating activities</b>                                  | <b>430</b>                | <b>740</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |               |
| Capital expenditures  | (355)                     | (372)         |
| Notes receivable from affiliates  | (165)                     | 13            |
| Other investing activities  | 14                        | 7             |
| <b>Net cash flows used in investing activities</b>                                      | <b>(506)</b>              | <b>(352)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |               |
| Issuance of long-term debt  | 1,135                     | 701           |
| Retirement of long-term debt  | (662)                     | (481)         |
| Issuance of mandatorily redeemable preferred securities                                 | 200                       | --            |
| Retirement of mandatorily redeemable preferred securities                               | (200)                     | --            |
| Change in short-term debt   | (71)                      | --            |
| Dividends paid on common stock  | (211)                     | (235)         |
| Change in restricted cash   | (18)                      | (32)          |
| Settlement of cash flow hedges  | (51)                      | (10)          |
| Other financing activities  | (28)                      | --            |
| <b>Net cash flows provided by (used in) financing activities</b>                        | <b>94</b>                 | <b>(57)</b>   |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>18</b>                 | <b>331</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                 | <b>16</b>                 | <b>23</b>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                       | <b>\$ 34</b>              | <b>\$ 354</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                           |               |
| Noncash investing and financing activities:   |                           |               |
| Retirement of treasury shares   | \$ --                     | \$ 1,344      |
| Adoption of SFAS No. 143 - adjustment to other paid in capital and goodwill             | 210                       | --            |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)                          | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>                                  |                  |                      |
| ASSETS                                 |                  |                      |
| CURRENT ASSETS                         |                  |                      |
| Cash and cash equivalents              | \$ 34            | \$ 16                |
| Restricted cash                        | 83               | 65                   |
| Accounts receivable, net               |                  |                      |
| Customer                               | 747              | 782                  |
| Other                                  | 78               | 72                   |
| Inventories, at average cost           | 63               | 65                   |
| Deferred income taxes                  | 19               | 20                   |
| Receivables from affiliates            | 177              | 15                   |
| Other                                  | 16               | 14                   |
| <hr/>                                  |                  |                      |
| Total current assets                   | 1,217            | 1,049                |
| <hr/>                                  |                  |                      |
| PROPERTY, PLANT AND EQUIPMENT, NET     | 7,944            | 7,756                |
| DEFERRED DEBITS AND OTHER ASSETS       |                  |                      |
| Regulatory assets                      | --               | 447                  |
| Investments                            | 35               | 42                   |
| Goodwill                               | 4,711            | 4,916                |
| Receivables from affiliates            | 2,397            | 1,300                |
| Other                                  | 373              | 320                  |
| <hr/>                                  |                  |                      |
| Total deferred debits and other assets | 7,516            | 7,025                |
| <hr/>                                  |                  |                      |
| TOTAL ASSETS                           | \$ 16,677        | \$ 15,830            |
| <hr/> <hr/>                            |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)                                  | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>  |                  |                      |
| LIABILITIES AND SHAREHOLDERS' EQUITY           |                  |                      |
| CURRENT LIABILITIES                            |                  |                      |
| Notes payable                                  | \$ --            | \$ 71                |
| Long-term debt due within one year             | 869              | 698                  |
| Accounts payable                               | 158              | 201                  |
| Accrued expenses                               | 456              | 538                  |
| Payables to affiliates                         | 209              | 416                  |
| Customer deposits                              | 79               | 81                   |
| Other  | 19               | 18                   |
| <hr/>  |                  |                      |
| Total current liabilities                      | 1,790            | 2,023                |
| <hr/>  |                  |                      |
| LONG-TERM DEBT                                 | 5,584            | 5,268                |
| DEFERRED CREDITS AND OTHER LIABILITIES         |                  |                      |
| Deferred income taxes                          | 1,741            | 1,650                |
| Unamortized investment tax credits             | 50               | 51                   |
| Pension obligation                             | 1                | 91                   |
| Non-pension postretirement benefits obligation | 156              | 138                  |
| Payables to affiliates                         | 26               | 224                  |
| Regulatory liabilities                         | 810              | --                   |
| Other  | 345              | 297                  |
| <hr/>  |                  |                      |
| Total deferred credits and other liabilities   | 3,129            | 2,451                |
| <hr/>  |                  |                      |
| COMMITMENTS AND CONTINGENCIES                  |                  |                      |
| MANDATORILY REDEEMABLE PREFERRED SECURITIES    | 344              | 330                  |
| SHAREHOLDERS' EQUITY                           |                  |                      |
| Common stock                                   | 1,588            | 1,588                |
| Preference stock                               | 7                | 7                    |
| Other paid in capital                          | 4,029            | 4,239                |
| Receivable from parent                         | (554)            | (615)                |
| Retained earnings                              | 767              | 577                  |
| Accumulated other comprehensive income (loss)  | (7)              | (38)                 |
| <hr/>  |                  |                      |
| Total shareholders' equity                     | 5,830            | 5,758                |
| <hr/>  |                  |                      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY     | \$ 16,677        | \$ 15,830            |
| <hr/> <hr/>                                    |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)  | Three Months Ended June 30, |              | Six Months Ended June 30, |               |
|--|-----------------------------|--------------|---------------------------|---------------|
|  | 2003                        | 2002         | 2003                      | 2002          |
| <b>OPERATING REVENUES</b>                                      |                             |              |                           |               |
| Operating revenues   | \$ 958                      | \$ 992       | \$ 2,173                  | \$ 2,008      |
| Operating revenues from affiliates                             | 3                           | 3            | 5                         | 7             |
| <b>Total operating revenues</b>                                | <b>961</b>                  | <b>995</b>   | <b>2,178</b>              | <b>2,015</b>  |
| <b>OPERATING EXPENSES</b>                                      |                             |              |                           |               |
| Purchased power  | 62                          | 59           | 127                       | 107           |
| Purchased power from affiliate                                 | 324                         | 346          | 681                       | 649           |
| Fuel   | 67                          | 53           | 257                       | 188           |
| Operating and maintenance                                      | 110                         | 114          | 236                       | 225           |
| Operating and maintenance from affiliates                      | 11                          | 17           | 25                        | 42            |
| Depreciation and amortization                                  | 116                         | 109          | 236                       | 221           |
| Taxes other than income  | 47                          | 63           | 110                       | 122           |
| <b>Total operating expenses</b>                                | <b>737</b>                  | <b>761</b>   | <b>1,672</b>              | <b>1,554</b>  |
| <b>OPERATING INCOME</b>  | <b>224</b>                  | <b>234</b>   | <b>506</b>                | <b>461</b>    |
| <b>OTHER INCOME AND DEDUCTIONS</b>                             |                             |              |                           |               |
| Interest expense   | (83)                        | (92)         | (168)                     | (187)         |
| Distributions on mandatorily redeemable preferred securities   | (2)                         | (2)          | (5)                       | (5)           |
| Other, net   | 1                           | 2            | 10                        | 2             |
| <b>Total other income and deductions</b>                       | <b>(84)</b>                 | <b>(92)</b>  | <b>(163)</b>              | <b>(190)</b>  |
| <b>INCOME BEFORE INCOME TAXES</b>                              | <b>140</b>                  | <b>142</b>   | <b>343</b>                | <b>271</b>    |
| <b>INCOME TAXES</b>  | <b>52</b>                   | <b>49</b>    | <b>119</b>                | <b>90</b>     |
| <b>NET INCOME</b>  | <b>88</b>                   | <b>93</b>    | <b>224</b>                | <b>181</b>    |
| Preferred stock dividends                                      | (2)                         | (2)          | (3)                       | (4)           |
| <b>NET INCOME ON COMMON STOCK</b>                              | <b>\$ 86</b>                | <b>\$ 91</b> | <b>\$ 221</b>             | <b>\$ 177</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)</b> |                             |              |                           |               |
| Net income   | \$ 88                       | \$ 93        | \$ 224                    | \$ 181        |
| Other comprehensive income (loss) (net of income taxes):       |                             |              |                           |               |
| Cash flow hedge adjustment                                     | --                          | (6)          | --                        | (4)           |
| <b>Total other comprehensive income (loss)</b>                 | <b>--</b>                   | <b>(6)</b>   | <b>--</b>                 | <b>(4)</b>    |
| <b>TOTAL COMPREHENSIVE INCOME</b>                              | <b>\$ 88</b>                | <b>\$ 87</b> | <b>\$ 224</b>             | <b>\$ 177</b> |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)   | Six Months Ended June 30, |        |
|---|---------------------------|--------|
|   | 2003                      | 2002   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |        |
| Net income  | \$ 224                    | \$ 181 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                           |        |
| Depreciation and amortization   | 236                       | 221    |
| Provision for uncollectible accounts  | 21                        | 32     |
| Deferred income taxes   | (28)                      | (19)   |
| Other operating activities  | 5                         | --     |
| Changes in assets and liabilities:  |                           |        |
| Accounts receivable   | 48                        | (4)    |
| Changes in receivables and payables to affiliates                                       | 27                        | 34     |
| Inventories   | (1)                       | 14     |
| Accounts payable, accrued expenses and other current liabilities                        | 11                        | 44     |
| Prepaid taxes   | (91)                      | (98)   |
| Deferred energy costs   | (24)                      | 49     |
| Other current assets  | (4)                       | (3)    |
| Pension and non-pension postretirement benefits obligations                             | 16                        | 8      |
| Other noncurrent assets and liabilities   | (15)                      | 9      |
| Net cash flows provided by operating activities   | 425                       | 468    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |        |
| Capital expenditures  | (132)                     | (132)  |
| Other investing activities  | 6                         | 10     |
| Net cash flows used in investing activities   | (126)                     | (122)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |        |
| Issuance of long-term debt  | 450                       | --     |
| Issuance of mandatorily redeemable preferred securities                                 | 100                       | --     |
| Retirement of long-term debt  | (592)                     | (207)  |
| Retirement of mandatorily redeemable preferred securities                               | (50)                      | --     |
| Retirement of preferred stock   | (50)                      | --     |
| Change in short-term debt   | (30)                      | 74     |
| Dividends paid on preferred and common stock  | (168)                     | (174)  |
| Contribution from parent  | 17                        | --     |
| Change in restricted cash   | 28                        | 1      |
| Other financing activities  | (6)                       | --     |
| Net cash flows used in financing activities   | (301)                     | (306)  |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | (2)                       | 40     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD  | 63                        | 32     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 61                     | \$ 72  |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)                               | June 30,<br>2003 | December 31,<br>2002 |
|---|------------------|----------------------|
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| ASSETS                                      |                  |                      |
| CURRENT ASSETS                              |                  |                      |
| Cash and cash equivalents                   | \$ 61            | \$ 63                |
| Restricted cash                             | 303              | 331                  |
| Accounts receivable, net                    |                  |                      |
| Customer                                    | 300              | 379                  |
| Other                                       | 51               | 39                   |
| Inventories, at average cost                |                  |                      |
| Fossil fuel                                 | 67               | 67                   |
| Materials and supplies                      | 9                | 8                    |
| Deferred energy costs                       | 55               | 31                   |
| Prepaid taxes                               | 92               | 1                    |
| Other                                       | 10               | 8                    |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| Total current assets                        | 948              | 927                  |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| PROPERTY, PLANT AND EQUIPMENT, NET          | 4,213            | 4,159                |
| DEFERRED DEBITS AND OTHER ASSETS            |                  |                      |
| Regulatory assets                           | 5,414            | 5,546                |
| Investments                                 | 19               | 19                   |
| Prepaid pension asset                       | 56               | 41                   |
| Other                                       | 22               | 28                   |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| Total deferred debits and other assets      | 5,511            | 5,634                |
| <hr style="border-top: 1px dashed black;"/> |                  |                      |
| TOTAL ASSETS                                | \$ 10,672        | \$ 10,720            |
| <hr style="border-top: 3px double black;"/> |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements



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

| (in millions)                                  | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>  |                  |                      |
| LIABILITIES AND SHAREHOLDERS' EQUITY           |                  |                      |
| CURRENT LIABILITIES                            |                  |                      |
| Notes payable                                  | \$ 170           | \$ 200               |
| Payables to affiliates                         | 137              | 170                  |
| Long-term debt due within one year             | 264              | 689                  |
| Accounts payable                               | 70               | 87                   |
| Accrued expenses                               | 361              | 332                  |
| Deferred income taxes                          | 27               | 27                   |
| Other  | 32               | 33                   |
| <hr/>  |                  |                      |
| Total current liabilities                      | 1,061            | 1,538                |
| <hr/>  |                  |                      |
| LONG-TERM DEBT                                 | 5,230            | 4,951                |
| MANDATORILY REDEEMABLE PREFERRED SECURITIES    | 100              | --                   |
| DEFERRED CREDITS AND OTHER LIABILITIES         |                  |                      |
| Deferred income taxes                          | 2,891            | 2,903                |
| Unamortized investment tax credits             | 23               | 24                   |
| Non-pension postretirement benefits obligation | 282              | 251                  |
| Payable to affiliate                           | 16               | --                   |
| Other  | 149              | 164                  |
| <hr/>  |                  |                      |
| Total deferred credits and other liabilities   | 3,361            | 3,342                |
| <hr/>  |                  |                      |
| COMMITMENTS AND CONTINGENCIES                  |                  |                      |
| MANDATORILY REDEEMABLE PREFERRED SECURITIES    | 78               | 128                  |
| SHAREHOLDERS' EQUITY                           |                  |                      |
| Common stock                                   | 1,993            | 1,976                |
| Receivable from parent                         | (1,698)          | (1,758)              |
| Preferred stock                                | 87               | 137                  |
| Retained earnings                              | 455              | 401                  |
| Accumulated other comprehensive income         | 5                | 5                    |
| <hr/>  |                  |                      |
| Total shareholders' equity                     | 842              | 761                  |
| <hr/>  |                  |                      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY     | \$ 10,672        | \$ 10,720            |
| <hr/> <hr/>                                    |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)  | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|--|-----------------------------|--------------|---------------------------|--------------|
|  | 2003                        | 2002         | 2003                      | 2002         |
| <b>OPERATING REVENUES</b>  |                             |              |                           |              |
| Operating revenues   | \$ 990                      | \$ 606       | \$ 1,876                  | \$ 1,175     |
| Operating revenues from affiliates   | 896                         | 953          | 1,889                     | 1,845        |
| <b>Total operating revenues</b>  | <b>1,886</b>                | <b>1,559</b> | <b>3,765</b>              | <b>3,020</b> |
| <b>OPERATING EXPENSES</b>  |                             |              |                           |              |
| Purchased power  | 675                         | 634          | 1,436                     | 1,186        |
| Purchased power from affiliates  | 125                         | 71           | 206                       | 137          |
| Fuel   | 348                         | 224          | 706                       | 433          |
| Operating and maintenance  | 411                         | 374          | 861                       | 750          |
| Operating and maintenance from affiliates  | 40                          | 37           | 82                        | 94           |
| Depreciation and amortization  | 46                          | 65           | 91                        | 128          |
| Taxes other than income  | 40                          | 41           | 88                        | 90           |
| <b>Total operating expenses</b>  | <b>1,685</b>                | <b>1,446</b> | <b>3,470</b>              | <b>2,818</b> |
| <b>OPERATING INCOME</b>  | <b>201</b>                  | <b>113</b>   | <b>295</b>                | <b>202</b>   |
| <b>OTHER INCOME AND DEDUCTIONS</b>   |                             |              |                           |              |
| Interest expense   | (16)                        | (10)         | (30)                      | (27)         |
| Interest expense - affiliates  | (4)                         | (1)          | (8)                       | (1)          |
| Equity in earnings of unconsolidated affiliates  | 18                          | 9            | 37                        | 32           |
| Other, net   | 34                          | 24           | (134)                     | 40           |
| <b>Total other income and deductions</b>   | <b>32</b>                   | <b>22</b>    | <b>(135)</b>              | <b>44</b>    |
| <b>INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES</b>  | <b>233</b>                  | <b>135</b>   | <b>160</b>                | <b>246</b>   |
| <b>INCOME TAXES</b>  | <b>91</b>                   | <b>51</b>    | <b>71</b>                 | <b>96</b>    |
| <b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES</b>   | <b>142</b>                  | <b>84</b>    | <b>89</b>                 | <b>150</b>   |
| <b>CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes of \$70 and \$9 for the six months ended June 30, 2003 and 2002, respectively)</b> | <b>--</b>                   | <b>--</b>    | <b>108</b>                | <b>13</b>    |
| <b>NET INCOME</b>  | <b>142</b>                  | <b>84</b>    | <b>197</b>                | <b>163</b>   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) (net of income taxes)</b>   |                             |              |                           |              |
| Unrealized gain (loss) on marketable securities  | 2                           | (74)         | (3)                       | (83)         |
| SFAS No. 143 transition adjustment   | --                          | --           | 168                       | --           |
| Cash flow hedge adjustment   | 64                          | 6            | (116)                     | (67)         |
| Interest in other comprehensive income (loss) of unconsolidated affiliates   | 17                          | (7)          | 8                         | (1)          |
| <b>Total other comprehensive income (loss)</b>   | <b>83</b>                   | <b>(75)</b>  | <b>57</b>                 | <b>(151)</b> |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>\$ 225</b>               | <b>\$ 9</b>  | <b>\$ 254</b>             | <b>\$ 12</b> |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)   | Six Months Ended June 30, |                |
|---|---------------------------|----------------|
|   | 2003                      | 2002           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                |
| Net income  | \$ 197                    | \$ 163         |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                           |                |
| Depreciation, amortization and accretion, including nuclear fuel                        | 388                       | 312            |
| Cumulative effect of changes in accounting principles (net of income taxes)             | (108)                     | (13)           |
| Provision for uncollectible accounts  | 1                         | 17             |
| Deferred income taxes   | (107)                     | (4)            |
| Equity in earnings of unconsolidated affiliates   | (37)                      | (32)           |
| Impairment of investment  | 200                       | --             |
| Impairment of long-lived assets   | 5                         | --             |
| Net realized (gains) losses on nuclear decommissioning trust funds                      | (12)                      | 21             |
| Other operating activities  | (39)                      | 53             |
| Changes in assets and liabilities:  |                           |                |
| Accounts receivable   | (116)                     | (136)          |
| Changes in receivables and payables to affiliates, net                                  | 238                       | (93)           |
| Inventories   | (19)                      | (15)           |
| Accounts payable, accrued expenses and other current liabilities                        | 91                        | 307            |
| Other current assets  | (104)                     | (87)           |
| Pension and non-pension postretirement benefits obligations                             | (59)                      | (4)            |
| Other noncurrent assets and liabilities   | 20                        | 30             |
| <b>Net cash flows provided by operating activities</b>                                  | <b>539</b>                | <b>519</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                |
| Capital expenditures  | (510)                     | (475)          |
| Proceeds from liquidated damages  | 86                        | --             |
| Proceeds from nuclear decommissioning trust funds                                       | 1,262                     | 889            |
| Investment in nuclear decommissioning trust funds                                       | (1,368)                   | (943)          |
| Note receivable from unconsolidated affiliate   | 35                        | (75)           |
| Acquisition of generating plants  | --                        | (443)          |
| Other investing activities  | (1)                       | (1)            |
| <b>Net cash flows used in investing activities</b>                                      | <b>(496)</b>              | <b>(1,048)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                |
| Issuance of long-term debt  | 211                       | --             |
| Retirement of long-term debt  | (3)                       | (2)            |
| Payment on acquisition note payable to Sithe Energies, Inc.                             | (210)                     | --             |
| Change in payables to affiliates  | 58                        | 331            |
| Distribution to member  | (45)                      | --             |
| Change in restricted cash   | (38)                      | --             |
| <b>Net cash flows (used in) provided by financing activities</b>                        | <b>(27)</b>               | <b>329</b>     |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | <b>16</b>                 | <b>(200)</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                 | <b>58</b>                 | <b>224</b>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                       | <b>\$ 74</b>              | <b>\$ 24</b>   |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                           |                |
| Noncash financing activities:   |                           |                |
| Distribution to member  | \$ 17                     | \$ --          |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)                          | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>                                  |                  |                      |
| ASSETS                                 |                  |                      |
| CURRENT ASSETS                         |                  |                      |
| Cash and cash equivalents              | \$ 74            | \$ 58                |
| Restricted cash                        | 38               | --                   |
| Accounts receivable, net               |                  |                      |
| Customer                               | 656              | 587                  |
| Other                                  | 83               | 57                   |
| Receivables from affiliates            | 334              | 594                  |
| Inventories, at average cost           |                  |                      |
| Fossil fuel                            | 96               | 97                   |
| Materials and supplies                 | 235              | 217                  |
| Deferred income taxes                  | 7                | 7                    |
| Other                                  | 288              | 188                  |
| <hr/>                                  |                  |                      |
| Total current assets                   | 1,811            | 1,805                |
| <hr/>                                  |                  |                      |
| PROPERTY, PLANT AND EQUIPMENT, NET     | 7,884            | 4,800                |
| DEFERRED DEBITS AND OTHER ASSETS       |                  |                      |
| Nuclear decommissioning trust funds    | 3,316            | 3,053                |
| Investments                            | 484              | 657                  |
| Receivable from affiliate              | 35               | 220                  |
| Deferred income taxes                  | 102              | 271                  |
| Prepaid pension asset                  | 55               | --                   |
| Other                                  | 226              | 201                  |
| <hr/>                                  |                  |                      |
| Total deferred debits and other assets | 4,218            | 4,402                |
| <hr/>                                  |                  |                      |
| TOTAL ASSETS                           | \$ 13,913        | \$ 11,007            |
| <hr/> <hr/>                            |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

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

| (in millions)  | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| <hr/>  |                  |                      |
| LIABILITIES AND MEMBER'S EQUITY                      |                  |                      |
| CURRENT LIABILITIES                                  |                  |                      |
| Long-term debt due within one year                   | \$ 1,252         | \$ 5                 |
| Accounts payable                                     | 1,408            | 1,126                |
| Payables to affiliates                               | 45               | 10                   |
| Notes payable to affiliates                          | 717              | 863                  |
| Accrued expenses                                     | 431              | 482                  |
| Other  | 93               | 108                  |
| <hr/>  |                  |                      |
| Total current liabilities                            | 3,946            | 2,594                |
| <hr/>  |                  |                      |
| LONG-TERM DEBT                                       | 1,111            | 2,132                |
| DEFERRED CREDITS AND OTHER LIABILITIES               |                  |                      |
| Unamortized investment tax credits                   | 222              | 226                  |
| Nuclear decommissioning liability for retired plants | --               | 1,395                |
| Asset retirement obligation                          | 2,440            | --                   |
| Pension obligation                                   | --               | 37                   |
| Non-pension postretirement benefits obligation       | 443              | 410                  |
| Spent nuclear fuel obligation                        | 863              | 858                  |
| Payable to affiliate                                 | 1,094            | --                   |
| Other  | 438              | 402                  |
| <hr/>  |                  |                      |
| Total deferred credits and other liabilities         | 5,500            | 3,328                |
| <hr/>  |                  |                      |
| COMMITMENTS AND CONTINGENCIES                        |                  |                      |
| MINORITY INTEREST OF CONSOLIDATED SUBSIDIARY         | 54               | 54                   |
| MEMBER'S EQUITY                                      |                  |                      |
| Membership interest                                  | 2,489            | 2,296                |
| Undistributed earnings                               | 1,077            | 924                  |
| Accumulated other comprehensive income (loss)        | (264)            | (321)                |
| <hr/>  |                  |                      |
| Total member's equity                                | 3,302            | 2,899                |
| <hr/>  |                  |                      |
| TOTAL LIABILITIES AND MEMBER'S EQUITY                | \$ 13,913        | \$ 11,007            |
| <hr/> <hr/>  |                  |                      |

See Condensed Combined Notes to Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES  
COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES  
PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES  
EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES  
CONDENSED COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in millions, except per share data, unless otherwise noted)

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

The accompanying consolidated financial statements as of June 30, 2003 and for the three and six months then ended are unaudited, but in the opinion of management of Exelon Corporation (Exelon), Commonwealth Edison Company (ComEd), PECO Energy Company (PECO) and Exelon Generation Company, LLC (Generation) include all adjustments that are considered necessary for a fair presentation of their respective financial statements. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2002 Consolidated Balance Sheets were derived from audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or shareholders' or member's equity. These notes should be read in conjunction with the Notes to Consolidated Financial Statements of Exelon, ComEd, PECO and Generation included in or incorporated by reference in ITEM 8 of their Annual Report on Form 10-K for the year ended December 31, 2002.

2. NEW ACCOUNTING PRINCIPLES AND ACCOUNTING CHANGES (Exelon, ComEd, PECO and Generation)

Accounting Principles with a Cumulative Effect upon Adoption  
SFAS No. 143

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) provides accounting requirements for retirement obligations (whether statutory, contractual or as a result of principles of promissory estoppel) associated with tangible long-lived assets. Exelon, ComEd, PECO and Generation were required to adopt SFAS No. 143 as of January 1, 2003. A significant retirement obligation is Generation's obligation to decommission its nuclear plants at the end of their license lives projected to be from 2029 through 2056. These nuclear plants and the related nuclear decommissioning trust fund investments were transferred to Generation by ComEd and PECO in connection with the Exelon corporate restructuring on January 1, 2001.

Generation had decommissioning assets of \$3,316 million and \$3,053 million as of June 30, 2003 and December 31, 2002, respectively, in trust accounts. Exelon and Generation anticipate that all trust fund assets will ultimately be used to decommission Generation's nuclear plants.

After considering interpretations of the transitional guidance included in SFAS No. 143, Exelon recorded income of \$112 million (after income taxes) as a cumulative effect of a change in accounting principle in connection with its adoption of this standard in the first quarter of 2003. The components of the cumulative effect of a change in accounting principle, after income taxes, are as follows:

|   |           |            |
|---|-----------|------------|
| Generation (net of income taxes of \$52)  | \$        | 80         |
| Generation's investments in AmerGen Energy Company, LLC and<br>Sithe Energies, Inc. (net of income taxes of \$18) |           | 28         |
| ComEd (net of income taxes of \$0)  |           | 5          |
| Exelon Enterprises Company, LLC (net of income taxes of \$(1))  |           | (1)        |
| <b>Total</b>  | <b>\$</b> | <b>112</b> |

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

The asset retirement obligation (ARO) as of January 1, 2003 was determined under SFAS No. 143 to be \$2,366 million and \$2,363 million for Exelon and Generation, respectively. As further explained below, the adoption also resulted in recording regulatory assets and liabilities. Accretion expense for the three months and six months ended June 30, 2003 for Exelon was \$39 million and \$78 million, respectively. Accretion expense for the three months and six months ended June 30, 2003 for Generation was \$38 million and \$77 million, respectively. The following table provides a reconciliation of the AROs reflected on the balance sheet at December 31, 2002 and June 30, 2003:

|  | Generation | Exelon  |
|--|------------|---------|
| Accumulated depreciation                             | \$2,845    | \$2,845 |
| Nuclear decommissioning liability for retired units  | 1,395      | 1,395   |
| Decommissioning obligation at December 31, 2002      | 4,240      | 4,240   |
| Net reduction due to adoption of SFAS No. 143        | 1,877      | 1,874   |
| Decommissioning obligation at January 1, 2003        | 2,363      | 2,366   |
| Accretion expense for six months ended June 30, 2003 | 77         | 78      |
| Asset retirement obligation at June 30, 2003         | \$2,440    | \$2,444 |

#### Determination of Asset Retirement Obligation

In accordance with SFAS No. 143, a probability-weighted, discounted cash flow model with multiple scenarios was used to determine the "fair value" of the decommissioning obligation. SFAS No. 143 also stipulates that fair value represents the amount a third party would receive for assuming an entity's entire obligation.

The present value of future estimated cash flows was calculated using credit-adjusted risk-free rates applicable to the various businesses in order to determine the fair value of Exelon's decommissioning obligation at the time of adoption of SFAS No. 143.

Significant changes in the assumptions underlying the items discussed above could materially affect the balance sheet amounts and future costs related to decommissioning recorded in the Consolidated Financial Statements.

The following tables set forth Exelon's net income and earnings per common share for the three and six months ended June 30, 2002 adjusted as if SFAS No. 143 had been applied effective January 1, 2002.

|  | Three Months Ended<br>June 30, 2002 | Six Months Ended<br>June 30, 2002 |
|--|-------------------------------------|-----------------------------------|
| Reported income before cumulative effect                                     |                                     |                                   |
| of changes in accounting principles  | \$ 485                              | \$ 722                            |
| Adjustment as if SFAS No. 143 had been applied effective January 1, 2002     | 10                                  | 20                                |
| Adjusted income before cumulative effect of changes in accounting principles | \$ 495                              | \$ 742                            |

|   | Three Months Ended<br>June 30, 2002 | Six Months Ended<br>June 30, 2002 |
|---|-------------------------------------|-----------------------------------|
| Reported net income   | \$ 485                              | \$ 492                            |
| Adjustment as if SFAS No. 143 had been applied effective January 1, 2002:         |                                     |                                   |
| Adjustment to income before cumulative effect of changes in accounting principles | 10                                  | 20                                |
| Cumulative effect of changes in accounting principles                             | --                                  | 132                               |
| Adjusted net income   | \$ 495                              | \$ 644                            |

|   |         | Three Months Ended June 30, 2002 |                         |
|---|---------|----------------------------------|-------------------------|
|   |         | Reported                         | Adjustment (1) Adjusted |
| Basic earnings per common share:                                    |         |                                  |                         |
| Income before cumulative effect of changes in accounting principles | \$ 1.50 | \$ 0.03                          | \$ 1.53                 |
| Net income  | \$ 1.50 | \$ 0.03                          | \$ 1.53                 |

|   |         | Three Months Ended June 30, 2002 |                         |
|---|---------|----------------------------------|-------------------------|
|   |         | Reported                         | Adjustment (1) Adjusted |
| Diluted earnings per common share:                                  |         |                                  |                         |
| Income before cumulative effect of changes in accounting principles | \$ 1.50 | \$ 0.03                          | \$ 1.53                 |
| Net income  | \$ 1.50 | \$ 0.03                          | \$ 1.53                 |

(1) The adjustment represents the earnings impact as if SFAS No. 143 had been applied effective January 1, 2002.

|   |         | Six Months Ended June 30, 2002 |                         |
|---|---------|--------------------------------|-------------------------|
|   |         | Reported                       | Adjustment (1) Adjusted |
| Basic earnings per common share:                                    |         |                                |                         |
| Income before cumulative effect of changes in accounting principles | \$ 2.24 | \$ 0.06                        | \$ 2.30                 |
| Net income  | \$ 1.53 | \$ 0.47                        | \$ 2.00                 |



| Diluted earnings per common share:  | Reported | Adjustment (1) | Adjusted |
|-------------------------------------|----------|----------------|----------|
| Income before cumulative effect     |          |                |          |
| of changes in accounting principles | \$ 2.23  | \$ 0.06        | \$ 2.29  |
| Net income                          | \$ 1.52  | \$ 0.47        | \$ 1.99  |

(1) The adjustment represents the earnings impact as if SFAS No. 143 had been applied effective January 1, 2002.

#### Effect of adopting SFAS No. 143

Exelon was required to re-measure the decommissioning liabilities at fair value using the methodology prescribed by SFAS No. 143. The transition provisions of SFAS No. 143 required Exelon to apply this re-measurement back to the historical periods in which asset retirement obligations were incurred, resulting in a re-measurement of these obligations at the date the related assets were acquired. Since the nuclear plants previously owned by ComEd were acquired by Exelon on October 20, 2000 (Merger Date) as a result of the merger of Exelon, Unicom Corporation and PECO (Merger), Exelon's historical accounting for its ARO has been revised as if SFAS No. 143 had been in effect at the Merger Date.

In the case of the former ComEd plants, the calculation of the SFAS No. 143 ARO yielded decommissioning obligations lower than the value of the corresponding trust assets. ComEd has previously collected amounts from customers (which were subsequently transferred to Generation) in advance of Generation's recognition of decommissioning expense under SFAS No. 143. While it is expected that the trust assets will ultimately be used entirely for the decommissioning of the plants, the current measurement required by SFAS No. 143 shows an excess of assets over related ARO liabilities. As such, in accordance with regulatory accounting practices and a December 2000 Illinois Commerce Commission (ICC) Order, a regulatory liability of \$948 million and a corresponding receivable from Generation were recorded at ComEd upon the adoption of SFAS No. 143. At June 30, 2003, the regulatory liability and corresponding receivable from Generation totaled \$1,094 million. Exelon believes that all of the decommissioning assets, including up to \$73 million of annual collections through 2006, will be used to decommission the former ComEd plants. Accordingly, Exelon expects the regulatory liability and corresponding receivable from Generation will be reduced to zero at or before the conclusion of the decommissioning of the former ComEd plants.

In the case of the former PECO plants, the SFAS No. 143 ARO calculation yielded decommissioning obligations greater than the corresponding trust assets. As such, a regulatory asset of \$20 million and a corresponding payable to Generation were recorded upon adoption at PECO. At June 30, 2003, the regulatory asset and corresponding payable to Generation totaled \$16 million. Exelon believes that all of the decommissioning assets, including the \$29 million of annual collections, will be used to decommission the former PECO plants. Exelon also expects the regulatory asset and corresponding payable to Generation will be reduced to zero at the conclusion of the decommissioning of the former PECO plants.

In accordance with regulatory accounting, the net plant balances of Exelon, ComEd and PECO include recoveries for removal costs, which are included as a component of accumulated depreciation. The adoption of SFAS No. 143 had no impact on the accounting for removal costs not associated with AROs.

Prior to the adoption of SFAS No. 143, Generation's accumulated depreciation included \$2,845 million for decommissioning liabilities related to the active plants. This amount was reclassified to an ARO upon the adoption of SFAS No. 143. Additionally, Generation adjusted the total decommissioning liability for the ComEd plants to \$1,575 million and for the PECO plants to \$787 million. As described above, Generation recorded a payable to ComEd of \$948 million and a receivable from PECO of \$20 million. Generation also recorded an asset retirement cost asset (ARC) of \$172 million related to the establishment of the PECO ARO in accordance with SFAS No. 143. The ARC will be amortized over the remaining lives of the plants.

As discussed above, Exelon re-measured its 2001 decommissioning related balances associated with the Merger purchase price allocation at ComEd and the January 2001 corporate restructuring as if SFAS No. 143 had been in effect at the Merger Date. Exelon and ComEd concluded that had SFAS No. 143 been in effect, ComEd would not have recorded an impairment on its regulatory asset for decommissioning of its retired nuclear plants as a purchase price allocation adjustment in 2001 as a result of the December 2000 ICC order. Increased net assets would have been transferred to Generation by ComEd in the corporate restructuring. Accordingly, Exelon recorded a reduction of goodwill of approximately \$210 million, with a corresponding reduction in its overall decommissioning obligation in connection with the implementation of SFAS No. 143 on January 1, 2003. Similarly, ComEd recorded a reduction of \$210 million of goodwill and of shareholders' equity, and Generation recorded a \$210 million increase in member's equity and a corresponding reduction of its decommissioning obligation. In addition, Exelon and ComEd recorded a cumulative effect of a change in accounting principle of \$5 million to reverse goodwill amortization that had been recorded in 2001. Exelon and ComEd also reclassified a regulatory asset related to nuclear decommissioning costs for retired units of \$248 million to regulatory liabilities.

In accordance with the provisions of SFAS No. 143 and regulatory accounting guidance, Exelon and Generation recorded a SFAS No. 143 transition adjustment to accumulated other comprehensive income to reclassify \$168 million of accumulated net unrealized losses on the nuclear decommissioning trust funds to regulatory assets and liabilities.

The following tables set forth ComEd and Generation's net income and Generation's income before cumulative effect of changes in accounting principles for the three and six months ended June 30, 2002 adjusted as if SFAS No. 143 had been applied effective January 1, 2002. ComEd's income before cumulative effect of a change in accounting principle was not affected by the adoption of SFAS No. 143.

| ComEd   | Three Months Ended<br>June 30, 2002 | Six Months Ended<br>June 30, 2002 |
|---|-------------------------------------|-----------------------------------|
| Reported net income   | \$ 231                              | \$ 360                            |
| Adjustment as if SFAS No. 143 had been applied effective January 1, 2002: |                                     |                                   |
| Cumulative effect of changes in accounting principles                     | --                                  | 5                                 |
| Adjusted net income   | \$ 231                              | \$ 365                            |

| Generation  | Three Months Ended<br>June 30, 2002 | Six Months Ended<br>June 30, 2002 |
|---|-------------------------------------|-----------------------------------|
| Reported income before cumulative effect<br>of changes in accounting principles | \$ 84                               | \$ 150                            |
| Adjustment as if SFAS No. 143 had been applied<br>effective January 1, 2002     | 10                                  | 20                                |
| Adjusted income before cumulative effect<br>of changes in accounting principles | \$ 94                               | \$ 170                            |

| Generation   | Three Months Ended<br>June 30, 2002 | Six Months Ended<br>June 30, 2002 |
|--|-------------------------------------|-----------------------------------|
| Reported net income  | \$ 84                               | \$ 163                            |
| Adjustment as if SFAS No. 143 had been applied<br>effective January 1, 2002:         |                                     |                                   |
| Adjustment to income before cumulative effect<br>of changes in accounting principles | 10                                  | 20                                |
| Cumulative effect of changes in accounting principles                                | --                                  | 128                               |
| Adjusted net income  | \$ 94                               | \$ 311                            |

#### Accounting methodology under SFAS No. 143

For the former ComEd plants, realized gains and losses on decommissioning trust funds are reflected in other income and deductions in Generation's Consolidated Statements of Income and Comprehensive Income, while the unrealized gains and losses on marketable securities held in the trust funds adjust the payable Generation currently has to ComEd. The increases in the ARO are recorded in operating and maintenance expense as accretion expense, while the funds received from ComEd for decommissioning are recorded in revenue. Generation's payable to ComEd is adjusted each reporting period to reflect the difference between the decommissioning assets and the ARO levels. As such, if the ARO increases at a rate faster than the increase in the trust fund assets, ComEd's regulatory liability and receivable from Generation will decrease. If and when the trust assets are exceeded by the decommissioning liability, Generation is responsible for any shortfall in funding. The result of the above accounting will have no earnings impact to Generation for as long as the trust assets exceed the decommissioning liabilities for the former ComEd plants.

The above accounting practices are also applicable for former PECO plants owned by Generation. Additionally, depreciation expense will be recognized on the ARC established upon adoption of SFAS No. 143. However, as PECO has the expectation of full recovery of decommissioning costs, the result of the above accounting will ultimately reflect no earnings impact to Generation. Therefore, to the extent that the net of decommissioning revenues collected and realized investment income differ from the accretion expense to the decommissioning liability and the related depreciation of the ARC, an adjustment to net the amounts to zero would be recorded by Generation for that period with the offset to PECO's regulatory asset balance.

The ongoing effects to Generation for the accounting for the decommissioning of the AmerGen Energy Company, LLC (AmerGen) plants are recorded within Generation's equity in earnings of AmerGen.

SFAS No. 141 and SFAS No. 142

In 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS No. 141), which requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. In addition, SFAS No. 141 required that unamortized negative goodwill related to pre-July 1, 2001 purchases be recognized as a change in accounting principle concurrent with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Upon AmerGen's adoption of SFAS No. 141 in January 2002, Generation recognized its proportionate share of income of \$22 million (\$13 million, net of income taxes) as a cumulative effect of a change in accounting principle.

Exelon, ComEd, PECO and Generation adopted SFAS No. 142 as of January 1, 2002. SFAS No. 142 established new accounting and reporting standards for goodwill and intangible assets. Exelon recorded a charge of \$357 million (\$243 million, net of income taxes and minority interest) upon the adoption of SFAS No. 142 with respect to goodwill recorded in certain reporting units of Exelon Enterprises Company, LLC (Enterprises). This charge was recorded as a cumulative effect of a change in accounting principle in the first quarter of 2002.

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

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

At June 30, 2003, Exelon had goodwill of \$4,735 million of which \$4,711 million relates to ComEd and the remaining goodwill relates to Enterprises' reporting units. See Note 3 - Acquisitions, Dispositions and Retirements for a further discussion of Enterprises' goodwill. Consistent with SFAS No. 142, the remaining goodwill is reviewed for impairment on an annual basis, or more frequently if significant events occur that could indicate an impairment exists. ComEd and Enterprises perform their annual reviews in the fourth quarter of their fiscal years. The annual update impairment review during the fourth quarter of 2002 did not identify any goodwill impairment.

Other Accounting Principles and Accounting Changes  
SFAS No. 146

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Exelon, ComEd, PECO and Generation's results of operations were unaffected by the adoption SFAS No. 146.

FIN No. 45

In November 2002, the FASB released FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45), providing for expanded disclosures and recognition of a liability for the fair value of the obligation undertaken by the guarantor. Under FIN No. 45, guarantors are required to disclose the nature of the guarantee, the maximum amount of potential future payments, the carrying amount of the liability and the nature and amount of recourse provisions or available collateral that would be recoverable by the guarantor. Exelon, ComEd, PECO and Generation adopted the disclosure requirements under FIN No. 45, which were effective for financial statements for periods ended after December 15, 2002. The recognition and measurement provisions of FIN No. 45 were effective for guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 had no material effect on Exelon, ComEd, PECO or Generation's results of operations. Liabilities associated with guarantees entered into during the six months ended June 30, 2003 are reflected in Note 8 - Commitments and Contingencies.

SFAS No. 148

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires disclosures in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method on financial results. SFAS No. 148 was effective for financial statements for fiscal years ended after December 15, 2002. Exelon adopted the additional disclosure requirements of SFAS No. 148 and continues to account for its stock-compensation plans under the disclosure only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). The tables below show the effect on net income and earnings per share for Exelon and the effect on net income for ComEd, PECO and Generation had Exelon elected to account for stock-based compensation plans using the fair value method under SFAS No. 123 for the three and six months ended June 30, 2003 and 2002:

Exelon

Three Months Ended June 30,

|   | 2003    | 2002    |
|---|---------|---------|
| Net income - as reported  | \$ 372  | \$ 485  |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes | (5)     | (8)     |
| Pro forma net income  | \$ 367  | \$ 477  |
| Earnings per share:   |         |         |
| Basic - as reported   | \$ 1.14 | \$ 1.50 |
| Basic - pro forma   | \$ 1.13 | \$ 1.48 |
| Diluted - as reported   | \$ 1.14 | \$ 1.50 |
| Diluted - pro forma   | \$ 1.12 | \$ 1.47 |

Six Months Ended June 30,

|   | 2003    | 2002    |
|---|---------|---------|
| Net income - as reported  | \$ 733  | \$ 492  |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes | (10)    | (17)    |
| Pro forma net income  | \$ 723  | \$ 475  |
| Earnings per share:   |         |         |
| Basic - as reported   | \$ 2.26 | \$ 1.53 |
| Basic - pro forma   | \$ 2.23 | \$ 1.48 |
| Diluted - as reported   | \$ 2.24 | \$ 1.52 |
| Diluted - pro forma   | \$ 2.21 | \$ 1.47 |

ComEd

Three Months Ended June 30,

|   | 2003   | 2002   |
|---|--------|--------|
| Net income - as reported  | \$ 205 | \$ 231 |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes | (1)    | (3)    |
| Pro forma net income  | \$ 204 | \$ 228 |

Six Months Ended June 30,

|   | 2003   | 2002   |
|---|--------|--------|
| Net income - as reported  | \$ 401 | \$ 360 |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes | (2)    | (6)    |
| Pro forma net income  | \$ 399 | \$ 354 |

## PECO

Three Months Ended June 30,

-----  
2003            2002

|   |    |     |    |     |
|---|----|-----|----|-----|
| Net income on common stock- as reported   | \$ | 86  | \$ | 91  |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes |    | (1) |    | (3) |
| Pro forma net income on common stock  | \$ | 85  | \$ | 88  |

-----  
Six Months Ended June 30,-----  
2003            2002

|   |    |     |    |     |
|---|----|-----|----|-----|
| Net income on common stock- as reported   | \$ | 221 | \$ | 177 |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes |    | (1) |    | (7) |
| Pro forma net income on common stock  | \$ | 220 | \$ | 170 |

## Generation

Three Months Ended June 30,

-----  
2003            2002

|   |    |     |    |     |
|---|----|-----|----|-----|
| Net income - as reported  | \$ | 142 | \$ | 84  |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes |    | (3) |    | (4) |
| Pro forma net income  | \$ | 139 | \$ | 80  |

-----  
Six Months Ended June 30,-----  
2003            2002

|   |    |     |    |     |
|---|----|-----|----|-----|
| Net income - as reported  | \$ | 197 | \$ | 163 |
| Deduct: Total stock-based compensation expense<br>determined under fair value based method for all<br>awards, net of income taxes |    | (5) |    | (7) |
| Pro forma net income  | \$ | 192 | \$ | 156 |

## FIN No. 46

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 addresses consolidating certain variable interest entities and applies immediately to variable interest entities created after January 31, 2003. FIN No. 46 requires Exelon to consolidate pre-existing variable interest entities as of July 1, 2003.

Based on management's interpretation of the provisions of FIN No. 46, it is reasonably possible that Generation will consolidate Sithe Energies, Inc. (Sithe) as of July 1, 2003. Generation is a 49.9% owner of Sithe and has accounted for this entity as an unconsolidated equity investment through June 30, 2003. Sithe owns and operates power generating facilities. Refer to Note 17 - Unconsolidated Equity Investments in Generation's Form 10-K for the year ended December 31, 2002 and Note 10 - Unconsolidated Investments for further information related to Generation's investment in Sithe. FIN No. 46 is a complex accounting standard and requires management to exercise judgment in analyzing entities with which Exelon and its

subsidiaries have business arrangements to determine if those entities are variable interest entities and, if so, whether consolidation is required. This accounting standard is the subject of continuing discussions by the FASB and others. The final determination of entities that may be considered variable interest entities will be completed in the third quarter of 2003.

#### SFAS No. 149

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 149 also amends SFAS No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative.

SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below, and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of SFAS No. 149 will be applied prospectively.

The provisions of SFAS No. 149 that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 will have no impact on the Consolidated Balance Sheets or Statements of Income and Comprehensive Income of Exelon, ComEd, PECO and Generation.

#### SFAS No. 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 requires that certain instruments that have characteristics of both liabilities and equity be classified as liabilities in the statement of financial position. SFAS No. 150 affects the accounting for three types of freestanding financial instruments: mandatorily redeemable shares, instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, and obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares.

Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective for Exelon as of July 1, 2003.

During June 2003, PECO issued \$100 million of trust preferred securities. These securities were recorded as liabilities (see Note 9 - Long-Term Debt and Preferred Securities).



Effective July 1, 2003, Exelon, ComEd and PECO will reclassify mandatorily redeemable shares that were issued prior to May 31, 2003 as liabilities on their respective balance sheets. The total amounts to be reclassified will be \$422 million, \$344 million and \$78 million, respectively. The adoption of SFAS No. 150 will have no impact on Generation.

Change in Accounting Estimate ComEd Effective July 1, 2002, ComEd lowered its depreciation rates based on a depreciation study reflecting its significant construction program in recent years, changes in and development of new technologies, and changes in estimated plant service lives since the last depreciation study. The annualized reduction in depreciation expense, based on December 31, 2001 plant balances, was estimated to be approximately \$100 million (\$60 million, after income taxes). As a result of the change, operating income for the three and six months ended June 30, 2003 increased approximately \$24 million and \$48 million, respectively (\$14 million and \$29 million, respectively, after income taxes) compared to the three and six months ended June 30, 2002.

### 3. ACQUISITIONS, DISPOSITIONS AND RETIREMENTS (Exelon and Generation)

#### InfraSource Sale

On June 18, 2003, Enterprises entered into an agreement to sell the electric construction and services, underground and telecom businesses of InfraSource, Incorporated (InfraSource). The net cash proceeds to Exelon from the sale are expected to be \$211 million plus a \$30 million subordinated note maturing with interest in 2011. The interest rate on the note is 8% annually if paid in cash and 10% if paid in kind. In connection with this transaction, Enterprises will enter into an agreement at closing that may result in certain payments to InfraSource if the amount of services Exelon purchases from InfraSource during the period from closing through 2006 is below specified thresholds. Enterprises anticipates incurring approximately \$5 million in closing costs associated with the transaction. Closing of the transaction is subject to the satisfaction of a number of conditions, including regulatory approvals from state utility commissions in Pennsylvania, Delaware, New Jersey, Virginia, Maryland and Washington, D.C. and other conditions, the satisfaction of which cannot be assured. Early termination of the Hart Scott Rodino waiting period was granted effective July 17, 2003. If all closing conditions are satisfied, the transaction is expected to close in the third or fourth quarter of 2003.

Exelon classified the assets and liabilities of InfraSource that are subject to the agreement of sale as held for sale within the Consolidated Balance Sheet pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144) as of June 30, 2003. These businesses are reported under the Enterprises segment pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The major classes of assets and liabilities classified as held for sale as of June 30, 2003 consist of the following (in millions):

|   |           |            |
|---|-----------|------------|
| Cash  | \$        | 26         |
| Accounts receivable, net                        |           | 82         |
| Inventory                                       |           | 13         |
| Property, plant and equipment, net              |           | 122        |
| Deferred income taxes                           |           | 62         |
| Other assets                                    |           | 47         |
| <b>Total assets classified as held for sale</b> | <b>\$</b> | <b>352</b> |

|  |           |           |
|--|-----------|-----------|
| Accounts payable                                     | \$        | 13        |
| Accrued expenses and other current liabilities       |           | 53        |
| Other liabilities                                    |           | 15        |
| <b>Total liabilities classified as held for sale</b> | <b>\$</b> | <b>81</b> |

In connection with the sale, Exelon recorded an impairment charge of approximately \$47 million (before income taxes) pursuant to SFAS No. 142 related to the goodwill recorded within the InfraSource reporting unit. Management of Exelon and Enterprises primarily considered the negotiated sales price of InfraSource in determining the amount of the goodwill impairment charge. This impairment charge was recorded as an operating and maintenance expense within the Consolidated Statements of Income and Comprehensive Income.

#### Sale of Investment in AT&T Wireless

On April 1, 2002, Enterprises sold its 49% interest in AT&T Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for \$285 million in cash. Enterprises recorded a gain of \$116 million (after income taxes) on the \$84 million investment in other income and deductions on Exelon's Consolidated Statements of Income and Comprehensive Income.

#### Generation

##### Sithe New England Holdings Acquisition

On November 1, 2002, Generation purchased the assets of Sithe New England Holdings, LLC (now known as Exelon New England), a subsidiary of Sithe, and related power marketing operations. The purchase price for the Exelon New England assets consisted of a \$536 million note to Sithe, \$14 million of direct acquisition costs and a \$208 million adjustment to Generation's previously existing investment in Sithe related to Exelon New England. In connection with the acquisition, Generation assumed certain Sithe guarantees, including a guarantee of an equity contribution to be made to Sithe Boston Generating, LLC (currently known as Exelon Boston Generating, LLC (EBG)), a project subsidiary of Exelon New England. Pursuant to Generation's assumed equity guarantee, upon the occurrence of certain events, Generation would be obligated to (1) contribute up to \$38 million of equity for the purpose of completing the construction of two generating facilities (2) pay certain taxes, and/or (3) contribute to certain reserve funds.

EBG has a \$1.25 billion credit facility (EBG Facility), which was entered into primarily to finance the construction of the Mystic 8 and 9 and Fore River generating units. The approximately \$1.1 billion of debt outstanding under the credit facility at June 30, 2003 is reflected in Exelon and Generation's Consolidated Balance Sheets as a current liability due to certain events of default described below. Generation made a cash payment to Sithe of approximately \$210 million during the second quarter of 2003 related to the note payable associated with the acquisition. See Note 9 - Long-Term Debt and Preferred Securities for additional information regarding this note.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed in the acquisition was as follows:

|  |           |            |
|--|-----------|------------|
| Current assets (including \$12 million of cash acquired) | \$        | 85         |
| Property, plant and equipment                            |           | 1,949      |
| Deferred debits and other assets                         |           | 63         |
| Current liabilities                                      |           | (154)      |
| Deferred credits and other liabilities                   |           | (149)      |
| Long-term debt   |           | (1,036)    |
| <b>Total purchase price</b>                              | <b>\$</b> | <b>758</b> |

The EBG Facility requires that all of the projects achieve "Project Completion," as defined in the EBG Facility (Project Completion), by June 12, 2003. On June 11, 2003, EBG negotiated an extension of the Project Completion date to July 11, 2003. On July 3, 2003, the lenders under the EBG Facility and EBG executed a letter agreement as a result of which the lenders are precluded during the period July 11, 2003 through August 29, 2003 from exercising any remedies resulting from the failure of all of the projects to achieve Project Completion. At that time, EBG stated that it would continue to monitor the projects, assess all of its options relating to the projects, and continue discussions with the lenders. Mystic 8 and 9 are in commercial operation, although construction has not progressed to the point of Project Completion. Construction of Fore River is substantially complete and the unit is currently undergoing testing. EBG does not anticipate that the projects will achieve Project Completion by August 29, 2003. The EBG Facility is non-recourse to Exelon and Generation and an event of default under the EBG Facility does not constitute an event of default under any other debt instruments of Exelon or its subsidiaries.

As a result of Exelon's continuing evaluation of the projects and discussions with the lenders in July 2003, Exelon has commenced the process of an orderly transition out of the ownership of EBG and the projects. The transition will take place in a manner that complies with applicable regulatory requirements. For a period of time, Exelon expects to continue to provide administrative and operational services to EBG in its operation of the projects. Exelon informed the lenders of Exelon's decision to exit and that it will not provide additional funding to the projects beyond its existing contractual obligations. Exelon cannot predict the timing of the transition.

Exelon expects Generation will incur an impairment of its EBG related assets, which, in aggregate, could reach approximately \$550 million after income taxes.

## Retirement of Power Plants

Generation filed a request with the New England ISO to retire Exelon New England's Mystic 4, 5 and 6 and New Boston units based upon management's view of the ongoing financial viability of the units due to the start up of Mystic Units 8 and 9. Pursuant to SFAS No. 144, Generation performed a fair value analysis associated with the pending retirement of Mystic Units 4, 5, and 6 and New Boston. Based on a probability-weighted undiscounted cash flow model, Generation determined that the book value exceeded the fair value by \$5 million for Mystic Units 4, 5 and 6. Therefore, an impairment charge of \$5 million was recorded as operating and maintenance expense in Exelon and Generation's Consolidated Statements of Income and Comprehensive Income for the three months ended June 30, 2003.

## Acquisition of Generating Plants from TXU

On April 25, 2002, Generation acquired two natural-gas and oil-fired plants from TXU Corp. (TXU) for an aggregate purchase price of \$443 million. The purchase included the 893-MW Mountain Creek Steam Electric Station in Dallas, Texas and the 1,441-MW Handley Steam Electric Station in Fort Worth, Texas. The transaction included a purchased power agreement for TXU to purchase power during the months of May through September from 2002 through 2006. During the periods covered by the purchased power agreement, TXU has agreed to fixed capacity and variable expense payments, and to provide fuel to Exelon in return for exclusive rights to the energy and capacity of the generation plants. Substantially all of the purchase price was allocated to property, plant and equipment.

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

### ComEd

On March 3, 2003, ComEd entered into an agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service (Agreement). The Agreement addressed, among other things, issues related to ComEd's delivery services rate proceeding, market value index proceeding, the process for competitive service declarations for large-load customers and an amendment and extension of the purchased power agreement (PPA) with Generation. During the second quarter of 2003, the ICC issued orders consistent with the Agreement which is now effective.

During the first quarter of 2003, ComEd recorded a charge to earnings, associated with the funding of specified programs and initiatives associated with the Agreement, of \$51 million (before income taxes) on a present value basis. This amount was partially offset by the reversal of a \$12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding, and a credit of \$10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The charge of \$51 million and the credit of \$10 million were recorded in operating and maintenance expense and the reversal of the \$12 million reserve was recorded in other, net within ComEd's Consolidated Statements of Income and Comprehensive Income. The net one-time charge for these items

was \$29 million (before income taxes). In accordance with the Agreement, ComEd made payments of \$17 million during the second quarter of 2003.

PECO

As previously reported in the 2002 Form 10-K, the Pennsylvania Utility Commission's (PUC) Final Electric Restructuring Order established market share thresholds (MST) to promote competition. On May 1, 2003, the PUC approved the residential customer plan filed by PECO in February 2003. Under the plan, a total of 375,000 residential customers may be transferred to alternative electric generation suppliers in December 2003. Customers transferred will have the right to return to PECO at any time. PECO does not expect the transfer of customers pursuant to the MST plan to have a material impact on its results of operations, financial position or cash flows.

5. EARNINGS PER SHARE (Exelon)

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

|  | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|--|-----------------------------|------|---------------------------|------|
|  | 2003                        | 2002 | 2003                      | 2002 |
| Average Common Shares Outstanding          | 325                         | 322  | 324                       | 322  |
| Assumed Exercise of Stock Options          | 2                           | 2    | 3                         | 2    |
| Average Dilutive Common Shares Outstanding | 327                         | 324  | 327                       | 324  |

The number of stock options not included in average common shares used in calculating diluted earnings per share due to their antidilutive effect were five million for the three and six months ended June 30, 2003 and three million for the three and six months ended June 30, 2002.

6. SEGMENT INFORMATION (Exelon, ComEd, PECO and Generation)

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

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

Exelon's segment information for the three and six months ended June 30, 2003 and 2002 and at June 30, 2003 and December 31, 2002 is as follows:

Three Months Ended June 30, 2003 and 2002

|                                    | Energy<br>Delivery | Generation | Enterprises | Corporate and<br>Intersegment<br>Eliminations | Consolidated |
|------------------------------------|--------------------|------------|-------------|---|--------------|
| -----                              |                    |            |             |   |              |
| Total Revenues (1):                |                    |            |             |   |              |
| 2003                               | \$ 2,322           | \$ 1,886   | \$ 443      | \$ (930)                                      | \$ 3,721     |
| 2002                               | 2,476              | 1,559      | 476         | (992)   | 3,519        |
| Intersegment Revenues:             |                    |            |             |   |              |
| 2003                               | \$ 19              | \$ 896     | \$ 16       | \$ (931)                                      | \$ --        |
| 2002                               | 15                 | 953        | 24          | (992)   | --           |
| Income (Loss) Before Income Taxes: |                    |            |             |   |              |
| 2003                               | \$ 481             | \$ 233     | \$ (95)     | \$ (25)                                       | \$ 594       |
| 2002                               | 522                | 135        | 142         | (35)  | 764          |
| Income Taxes:                      |                    |            |             |   |              |
| 2003                               | \$ 190             | \$ 91      | \$ (34)     | \$ (25)                                       | \$ 222       |
| 2002                               | 200                | 51         | 59          | (31)  | 279          |
| Net Income (Loss):                 |                    |            |             |   |              |
| 2003                               | \$ 291             | \$ 142     | \$ (61)     | \$ --   | \$ 372       |
| 2002                               | 322                | 84         | 83          | (4)   | 485          |
| -----                              |                    |            |             |   |              |

(1) \$51 million and \$57 million in utility taxes are included in the Revenues and Expenses for the three months ended June 30, 2003 and 2002, respectively, for ComEd. \$47 million and \$49 million in utility taxes are included in the Revenues and Expenses for the three months ended June 30, 2003 and 2002, respectively, for PECO.

Six Months Ended June 30, 2003 and 2002, June 30, 2003, and December 31, 2002

|  | Energy<br>Delivery | Generation | Enterprises | Corporate and<br>Intersegment<br>Eliminations | Consolidated |
|--|--------------------|------------|-------------|---|--------------|
| -----  |                    |            |             |   |              |
| Total Revenues (1):  |                    |            |             |   |              |
| 2003   | \$ 4,964           | \$ 3,765   | \$ 1,022    | \$ (1,956)                                    | \$ 7,795     |
| 2002   | 4,811              | 3,020      | 966         | (1,921)                                       | 6,876        |
| Intersegment Revenues:   |                    |            |             |   |              |
| 2003   | \$ 35              | \$ 1,889   | \$ 35       | \$ (1,959)                                    | \$ --        |
| 2002   | 29                 | 1,845      | 47          | (1,921)                                       | --           |
| Income (Loss) Before Income Taxes and the Cumulative Effect of Changes in Accounting Principles: |                    |            |             |   |              |
| 2003   | \$ 998             | \$ 160     | \$ (125)    | \$ (42)                                       | \$ 991       |
| 2002   | 864                | 246        | 95          | (56)  | 1,149        |
| Income Taxes:  |                    |            |             |   |              |
| 2003   | \$ 382             | \$ 71      | \$ (47)     | \$ (36)                                       | \$ 370       |
| 2002   | 326                | 96         | 40          | (35)  | 427          |
| Cumulative Effect of Changes in Accounting Principles:   |                    |            |             |   |              |
| 2003   | \$ 5               | \$ 108     | \$ (1)      | \$ --   | \$ 112       |
| 2002   | --                 | 13         | (243)       | --  | (230)        |
| Net Income (Loss):   |                    |            |             |   |              |
| 2003   | \$ 621             | \$ 197     | \$ (79)     | \$ (6)  | \$ 733       |
| 2002   | 538                | 163        | (188)       | (21)  | 492          |
| Total Assets:  |                    |            |             |   |              |
| June 30, 2003  | \$ 27,349          | \$ 13,913  | \$ 1,166    | \$ (2,140)                                    | \$ 40,288    |
| December 31, 2002  | 26,550             | 11,007     | 1,297       | (1,369)                                       | 37,485       |
| -----  |                    |            |             |   |              |

(1) \$113 million and \$114 million in utility taxes are included in the Revenues and Expenses for the six months ended June 30, 2003 and 2002, respectively, for ComEd. \$98 million and \$93 million in utility taxes are included in the Revenues and Expenses for the six months ended June 30, 2003 and 2002, respectively, for PECO.

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

During the three and six months ended June 30, 2003 and 2002, Exelon recorded pre-tax gains (losses) in other comprehensive income relating to mark-to-market (MTM) adjustments of contracts designated as cash flow hedges as follows:

|                                  | ComEd  | PECO | Generation | Enterprises | Exelon |
|----------------------------------|--------|------|------------|-------------|--------|
| -----                            |        |      |            |             |        |
| Three months ended June 30, 2003 | \$ (6) | \$ 2 | \$ 103     | \$ 3        | \$ 102 |
| Three months ended June 30, 2002 | (14)   | (6)  | 10         | (3)         | (13)   |
| Six months ended June 30, 2003   | (5)    | 5    | (191)      | 7           | (184)  |
| Six months ended June 30, 2002   | (16)   | (1)  | (108)      | 14          | (111)  |
| -----                            |        |      |            |             |        |

During the three and six months ended June 30, 2003 and 2002, Generation recognized net MTM gains on non-trading energy derivative contracts not designated as cash flow hedges, in purchased power as follows:

|                             | 2003  | 2002 |
|-----------------------------|-------|------|
| Three months ended June 30, | \$ 32 | \$ 4 |
| Six months ended June 30,   | 1     | 10   |

During the three and six months ended June 30, 2003 and 2002, Generation recognized net MTM losses on proprietary trading contracts in operating revenues as follows:

|                             | 2003   | 2002   |
|-----------------------------|--------|--------|
| Three months ended June 30, | \$ (2) | \$ (9) |
| Six months ended June 30,   | (4)    | (13)   |

During the three and six months ended June 30, 2003 and 2002, no amounts were reclassified to other income in the Consolidated Statements of Income and Comprehensive Income as a result of the discontinuance of cash flow hedges related to certain forecasted financing transactions that were no longer probable of occurring.

During the three and six months ended June 30, 2003 and 2002, Generation did not reclassify any amounts from accumulated other comprehensive income into earnings as a result of forecasted energy commodity transactions no longer being probable.

As of June 30, 2003, deferred net gains (losses) on derivative instruments accumulated in other comprehensive income that are expected to be reclassified to earnings during the next twelve months are as follows:

|  | ComEd | PECO  | Generation | Enterprises | Exelon   |
|--|-------|-------|------------|-------------|----------|
| Net gains (losses) expected to be reclassified | \$ -- | \$ 11 | \$ (281)   | \$ 8        | \$ (262) |

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

As of June 30, 2003, ComEd expects to amortize during the next twelve months \$7 million of regulatory assets for settled cash flow swaps. During the three and six months ended June 30, 2003 and 2002, ComEd reclassified amounts from other comprehensive income to regulatory assets for cash flow swaps settled as follows:

|   | 2003  | 2002 |
|---|-------|------|
| Three months ended June 30, (net of tax of \$0 and \$0, respectively) | \$ -- | \$ 1 |
| Six months ended June 30, (net of tax of \$21 and \$4, respectively)  | 30    | 6    |

ComEd has entered into interest rate swaps to effectively convert \$485 million in fixed-rate debt to floating rate debt. These swaps have been designated as fair-value hedges as defined in SFAS No. 133, and as such, changes in the fair value of the swaps will be recorded in



earnings. However, as long as the hedge remains effective, changes in the fair value of the swaps will be offset by changes in the fair value of the hedged liabilities. Any change in the fair value of the hedge as a result of ineffectiveness would be recorded immediately in earnings. As of June 30, 2003, these swaps had an aggregate fair market value of \$46 million, which was classified as other deferred debits and other assets within the Consolidated Balance Sheets.

In 2003, ComEd entered into forward-starting interest rate swaps with an aggregate notional amount of \$440 million to manage interest rate exposure associated with anticipated debt issuance. In connection with the 2003 issuances of certain First Mortgage Bonds, forward-starting interest rate swaps with an aggregate notional amount of \$870 million were settled with net proceeds to counterparties of \$51 million (\$30 million, after income taxes) that has been deferred in regulatory assets and is being amortized over the life of the First Mortgage Bonds as an increase to interest expense. See Note 9 - Long-Term Debt and Preferred Securities for additional information regarding the issuance of the First Mortgage Bonds. On June 30, 2003, ComEd's remaining forward-starting swaps had an aggregate notional amount of \$200 million and an aggregate fair market value of \$6 million.

PECO 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. At June 30, 2003, these interest rate swaps had an aggregate fair market value exposure of \$17 million based on the present value difference between the contract and market rates at June 30, 2003.

In 2003, PECO entered into forward-starting interest rate swaps with an aggregate notional amount of \$360 million to manage interest rate exposure associated with an anticipated debt issuance. In connection with the April 28, 2003 issuance of \$450 million in First and Refunding Mortgage Bonds, PECO settled the swaps for net proceeds of \$1 million (before income taxes), which was recorded in other comprehensive income and is being amortized over the life of the debt issuance. See Note 9 - Long-Term Debt and Preferred Securities for additional information regarding the issuance of the First and Refunding Mortgage Bonds.

Under the terms of the EBG Facility, EBG is required to effectively fix the interest rate on 50% of borrowings under the facility through its maturity in 2007. As of June 30, 2003, EBG has entered into interest rate swap agreements, which have effectively fixed the interest rate on \$861 million of notional principal, or approximately 80% of borrowings outstanding under the EBG Facility at June 30, 2003. The fair market value exposure of these swaps, designated as cash flow hedges, is \$105 million.

Generation has also entered into interest rate swaps with an aggregate notional amount of \$200 million to manage interest rate exposures associated with an anticipated debt issuance. As of June 30, 2003, these swaps had an aggregate fair market value of \$4 million based on the present value difference between the contract and market rates at June 30, 2003, which was classified as deferred debits and other assets within the Consolidated Balance Sheets.

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

June 30, 2003

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| Cash and cash equivalents           | \$ 171            | \$ --                        | \$ --                         | \$ 171                  |
| Equity securities                   | 1,909             | 124                          | (387)                         | 1,646                   |
| Debt securities                     |                   |                              |                               |                         |
| Government obligations              | 1,015             | 71                           | (2)                           | 1,084                   |
| Other debt securities               | 410               | 32                           | (27)                          | 415                     |
| Total debt securities               | 1,425             | 103                          | (29)                          | 1,499                   |
| Total available-for-sale securities | \$ 3,505          | \$ 227                       | \$ (416)                      | \$ 3,316                |

December 31, 2002

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| Cash and cash equivalents           | \$ 184            | \$ --                        | \$ --                         | \$ 184                  |
| Equity securities                   | 1,763             | 72                           | (482)                         | 1,353                   |
| Debt securities                     |                   |                              |                               |                         |
| Government obligations              | 938               | 62                           | --                            | 1,000                   |
| Other debt securities               | 514               | 32                           | (30)                          | 516                     |
| Total debt securities               | 1,452             | 94                           | (30)                          | 1,516                   |
| Total available-for-sale securities | \$ 3,399          | \$ 166                       | \$ (512)                      | \$ 3,053                |

Net unrealized losses of \$189 million were recognized in regulatory assets, regulatory liabilities or accumulated other comprehensive income in Exelon's Consolidated Balance Sheet at June 30, 2003. Net unrealized losses of \$189 million were recognized in noncurrent affiliate payables, noncurrent affiliate receivables or accumulated other comprehensive income in Generation's Consolidated Balance Sheet as of June 30, 2003. Net unrealized losses of \$346 million were recognized in accumulated depreciation and accumulated other comprehensive income in the Consolidated Balance Sheets of Exelon and Generation at December 31, 2002.

During the three and six months ended June 30, 2003 and 2002, proceeds from the sale of decommissioning trust investments and gross realized gains and losses on those sales were as follows:

|                       | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|-----------------------|-----------------------------|--------|---------------------------|--------|
|                       | 2003                        | 2002   | 2003                      | 2002   |
| Proceeds from sales   | \$ 690                      | \$ 309 | \$ 1,262                  | \$ 889 |
| Gross realized gains  | 51                          | 13     | 65                        | 31     |
| Gross realized losses | (45)                        | (24)   | (53)                      | (56)   |

Net realized gains of \$6 million and net realized losses of \$11 million for the three months ended June 30, 2003 and 2002, respectively, were recorded in other income and deductions. Net realized gains of \$12 million and net realized losses of \$21 million for the six months ended June 30, 2003 and 2002, respectively, were recorded in other income and

deductions. Net realized losses of \$4 million were recognized in accumulated depreciation at June 30, 2002. The available-for-sale securities held at June 30, 2003 have an average maturity of eight to ten years. The cost of these securities was determined on the basis of specific identification.

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

For information regarding capital commitments, nuclear decommissioning and spent fuel storage, see the Commitments and Contingencies and Nuclear Decommissioning and Spent Fuel Storage Notes in the Notes to Consolidated Financial Statements of Exelon, ComEd, PECO and Generation for the year ended December 31, 2002. See Note 2 - New Accounting Principles and Accounting Changes for further discussion of nuclear decommissioning commitments and contingencies.

##### Environmental Liabilities

As of June 30, 2003, Exelon had accrued \$131 million for environmental investigation and remediation costs that currently can be reasonably estimated, including \$108 million for manufactured gas plant (MGP) investigation and remediation. Exelon has identified 71 sites where former MGP activities have or may have resulted in actual site contamination.

As of June 30, 2003, ComEd had accrued \$86 million for environmental investigation and remediation costs that currently can be reasonably estimated. This reserve included \$82 million (discounted) for MGP investigation and remediation.

As of June 30, 2003, PECO had accrued \$35 million (undiscounted) for environmental investigation and remediation costs that currently can be reasonably estimated, including \$26 million for MGP investigation and remediation. Pursuant to a PUC order, PECO is currently recovering a provision for environmental costs annually for the remediation of sites of former MGP facilities, for which PECO has recorded a regulatory asset (see Note 12 - Supplemental Financial Information).

As of June 30, 2003, Generation had accrued \$10 million (undiscounted) for environmental investigation and remediation cost, none of which relates to MGP investigation and remediation.

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

##### Energy Commitments

Exelon and Generation had long-term commitments as of June 30, 2003 relating to the net purchase and sale of energy, capacity and transmission rights from unaffiliated utilities,

including Midwest Generation, LLC (Midwest Generation), and others, including AmerGen, as expressed in the following table:

|              | Net Capacity Purchases (1) | Power Only Non-Affiliate Sales | Power Only Purchases from<br>-----<br>AmerGen(2) Non-Affiliates |                | Transmission Rights Purchases (3) |
|--------------|----------------------------|--------------------------------|---|----------------|-----------------------------------|
| 2003         | \$ 531                     | \$2,012                        | \$ 231  | \$1,306        | \$ 38                             |
| 2004         | 822                        | 1,708                          | 492   | 1,066          | 103                               |
| 2005         | 509                        | 536                            | 386   | 296            | 84                                |
| 2006         | 476                        | 169                            | 398   | 223            | 3                                 |
| 2007         | 458                        | 61                             | 404   | 212            | --                                |
| Thereafter   | 3,802                      | 1                              | 1,826   | 845            | --                                |
| <b>Total</b> | <b>\$6,598</b>             | <b>\$4,487</b>                 | <b>\$3,737</b>  | <b>\$3,948</b> | <b>\$ 228</b>                     |

- (1) Net Capacity Purchases includes Midwest Generation commitments as of June 30, 2003. In 2003, Generation will take 1,778 Mws of option capacity under the Collins and Peaking Unit Agreements as well as 1,265 Mws of optional capacity under the Coal Generation PPA. On June 25, 2003, Generation notified Midwest Generation of its exercise of its call option under the Coal Generation PPA for 2004. Generation exercised its call option on 687 Mws of capacity for 2004 generated by Waukegan Unit 8 and Fisk Unit 19 and did not exercise its option on 578 Mws of capacity at Waukegan Unit 6, Crawford Unit 7, and Will County Unit 3. Net Capacity Purchases in 2004 include 3,474 Mws of optional capacity from Midwest Generation. Net Capacity Purchases also include capacity sales to TXU under the PPA entered into in connection with the purchase of two generating plants in April 2002, which states that TXU will purchase the plant output from May through September from 2002 through 2006. The combined capacity of the two plants is 2,334 Mws.
- (2) Generation has entered into PPAs dated June 26, 2003, December 18, 2001, and November 22, 1999 with AmerGen. Generation has agreed to purchase 100% of the energy generated by Oyster Creek Nuclear Power Station (Oyster Creek) through April 9, 2009. Generation has agreed to purchase all the energy from Unit No. 1 at Three Mile Island Nuclear Station from January 1, 2002 through December 31, 2014. Generation has agreed to purchase all of the residual energy from Clinton Nuclear Power Station (Clinton) not sold to Illinois Power through December 31, 2004. Currently, the residual output is approximately 31% of the total output of Clinton, but will increase to 100% and the obligation will continue until the Clinton NRC license expires in 2026.
- (3) Transmission Rights Purchases include estimated commitments in 2004 and 2005 for additional transmission rights that will be required to fulfill firm sales contracts.

Additionally, Generation has the following energy commitments:

In connection with the 2001 corporate restructuring, Generation entered into a PPA with ComEd under which Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006, which is expected to exceed current pricing. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation. The PPA for 2005 and 2006 may be extended to a full requirements contract as a result of the Agreement (see Note 4 - Regulatory Issues).

In connection with the 2001 corporate restructuring, Generation entered into a PPA with PECO under which Generation has agreed to supply PECO with substantially all of PECO's electric supply needs through 2010. Also, under the restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

Under terms of the 2001 corporate restructuring, ComEd remits to Generation any amounts collected from customers for nuclear decommissioning, currently totaling \$73 million per year. Under an agreement effective September 2001, PECO remits to Generation any amounts collected from customers for nuclear decommissioning, currently totaling

\$29 million per year. See Note 2 - New Accounting Principles and Accounting Changes for further discussion of the impact of the adoption of SFAS No. 143 on these collections.

#### Litigation

##### Exelon

Securities Litigation. Between May 8 and June 14, 2002, several class action lawsuits were filed in the Federal District Court in Chicago asserting nearly identical securities law claims on behalf of purchasers of Exelon securities between April 24, 2001 and September 27, 2001 (Class Period). The complaints allege that Exelon violated Federal securities laws by issuing a series of materially false and misleading statements relating to its 2001 earnings expectations during the Class Period. The court consolidated the pending cases into one lawsuit and appointed two lead plaintiffs as well as lead counsel.

On October 1, 2002, the plaintiffs filed a consolidated amended complaint, which contained allegations of new facts and several new theories of liability. On June 13, 2003, the court dismissed the amended complaint with prejudice. The plaintiffs have agreed not to appeal the court's order of dismissal, thereby terminating the case.

##### ComEd

FERC Municipal Request for Refund. Three of ComEd's wholesale municipal customers filed a complaint and request for refund with the Federal Energy Regulatory Commission (FERC), alleging that ComEd failed to properly adjust its rates, as provided for under the terms of the electric service contracts with the municipal customers and to track certain refunds made to ComEd's retail customers in the years 1992 through 1994. ComEd and the municipal customers have executed a settlement agreement ending the litigation. Under the settlement, ComEd will pay a total of approximately \$3 million to the three municipalities.

Retail Rate Law. In 1996, several developers of non-utility generating facilities filed litigation against various Illinois officials claiming that the enforcement against those facilities of an amendment to Illinois law removing the entitlement of those facilities to state-subsidized payments for electricity sold to ComEd after March 15, 1996 violated their rights under the Federal and state constitutions. The developers also filed suit against ComEd for a declaratory judgment that their rights under their contracts with ComEd were not affected by the amendment and for breach of contract. On November 25, 2002, the court granted the developers' motions for summary judgment. The judge also entered a permanent injunction enjoining ComEd from refusing to pay the retail rate on the grounds of the amendment, and Illinois from denying

ComEd a tax credit on account of such purchases. ComEd and Illinois have each appealed the ruling. ComEd believes that it did not breach the contracts in question and that the damages claimed far exceed any loss that any project incurred by reason of its ineligibility for the subsidized rate. ComEd intends to prosecute its appeal and defend each case vigorously.

**Service Interruptions.** In August 1999, three class action lawsuits were filed against ComEd, and subsequently consolidated, in the Circuit Court of Cook County, Illinois seeking damages for personal injuries, property damage and economic losses related to a series of service interruptions that occurred in the summer of 1999. The combined effect of these interruptions resulted in over 168,000 customers losing service for more than four hours. The court approved conditional class certification for the sole purpose of exploring settlement. ComEd filed a motion to dismiss the complaints. On April 24, 2001, the court dismissed four of the five counts of the consolidated complaint without prejudice and the sole remaining count was dismissed in part. On June 1, 2001, the plaintiffs filed a second amended consolidated complaint and ComEd has filed an answer. On December 5, 2002, a settlement was reached, whereby ComEd will pay up to \$8 million, which includes \$4 million paid to date. The Court preliminarily approved the settlement on June 23, 2003, and a final hearing is set for October 2, 2003. The settlement, when approved, will release ComEd from all claims arising from the 1999 power outages. A portion of any settlement or verdict may be covered by insurance.

#### Generation

**Cotter Corporation Litigation.** During 1989 and 1991, actions were brought in Federal and state courts in Colorado against ComEd and its subsidiary, Cotter Corporation (Cotter), seeking unspecified damages and injunctive relief based on allegations that Cotter permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by the plaintiffs, resulting in property damage and potential adverse health effects. In 1994, a Federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately \$6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was completed on June 28, 2001. The jury returned a verdict against Cotter and awarded \$16 million in various damages. On November 20, 2001, the District Court entered an amended final judgment that included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses that total \$43 million. In November 2000, another trial involving a separate sub-group of 13 plaintiffs, seeking \$19 million in damages plus interest was completed in Federal District Court in Denver. The jury awarded nominal damages of \$42,500 to 11 of 13 plaintiffs, but awarded no damages for any personal injury or health claims, other than requiring Cotter to perform periodic medical monitoring at minimal cost. Cotter appealed these judgments to the Tenth Circuit Court of Appeals. On April 22, 2003, the Tenth Circuit Court of Appeals reversed both judgments and remanded the cases for retrial. Cotter intends to vigorously defend each case.

On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the

sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of these actions, as well as any liability arising in connection with the West Lake Landfill discussed in the next paragraph. In connection with Exelon's 2001 corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred by ComEd to Generation.

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

Raytheon Arbitration. In March 2001, two subsidiaries of Site New England acquired in November 2002, brought an action in the New York Supreme Court against Raytheon Corporation (Raytheon) relating to its failure to honor its guaranty with respect to the performance of the Mystic and Fore River projects, as a result of the abandonment of the projects by the turnkey contractor. In a related proceeding, in May 2002, Raytheon submitted claims to the International Chamber of Commerce Court of Arbitration (Arbitration Court) seeking equitable relief and damages for alleged owner-caused performance delays in connection with the Fore River Power Plant Engineering, Procurement & Construction Agreement (EPC Agreement). The EPC Agreement, executed by a Raytheon subsidiary and guaranteed by Raytheon, governs the design, engineering, construction, start-up, testing and delivery of an 800-MW combined-cycle power plant in Weymouth, Massachusetts. Hearings by the Arbitration Court with respect to liability were held in January and February 2003. On May 12, 2003, the Arbitration Court issued an Interim Order finding in favor of Raytheon on liability, but limited the grounds upon which Raytheon could claim schedule and cost relief. After the Interim Order, Raytheon amended its claim to seek 110 days of schedule relief (which would reduce Raytheon's liquidated damage payment for late delivery by approximately \$20 million) and additional damages of \$12 million. Raytheon also has asserted a claim in the amount of approximately \$13 million for loss of efficiency and productivity as a result of an alleged constructive acceleration. The aggregate amount of Raytheon's asserted claims is approximately \$45 million, not including general and administrative costs, profit and interest that Raytheon asserts are due under the contract. Hearings by the Arbitration Court with respect to damages are scheduled and a final decision is expected in September 2003. Generation believes that Site New England properly rejected Raytheon's request for a change order and that Raytheon's damages claims are inflated. In addition to its asserted claims, Raytheon has indicated that it will bring additional claims for damages. Exelon will continue to vigorously defend its position in the arbitration and contest any additional claims that may be asserted.

Clean Air Act. On June 1, 2001, the EPA issued to EBG a Notice of Violation (NOV) and Reporting Requirement pursuant to Sections 113 and 114 of the Clean Air Act, alleging numerous exceedances of opacity limits and violations of opacity-related monitoring, recording and reporting requirements at Mystic Station in Everett, Massachusetts. On January 8, 2002, the EPA indicated that it had decided to resolve the NOV through an administrative compliance order and a judicial civil penalty action. In March 2002, the EPA issued and Sithe Mystic LLC, a wholly owned subsidiary of EBG, voluntarily entered a Compliance Order and Reporting Requirement (Compliance Order) regarding Mystic Station, under which Mystic Station installed new ignition equipment on three of the four units at the plant. Mystic Station also undertook an extensive opacity monitoring and testing program for all four units at the plant to help determine if additional compliance measures were needed. Pursuant to the requirements of the Compliance Order, EBG switched three of the four units to a lower sulfur fuel oil by September 1, 2002. The Compliance Order does not address civil penalties. By a letter dated April 21, 2003, the United States Department of Justice notified EBG that, at the request of the EPA, it intended to bring a civil penalty action, but also offered the opportunity to resolve the matter through settlement discussions. EBG is pursuing settlement discussions with the EPA and the Department of Justice.

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

Exelon, ComEd, PECO and Generation

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



Commercial Commitments

Exelon, ComEd, PECO and Generation's commercial commitments as of June 30, 2003, representing commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure their obligations, are as follows:

| Exelon   | Total    | 2003     | 2004-2005 | 2006-2007 | Expiration within |            |
|--|----------|----------|-----------|-----------|-------------------|------------|
|  |          |          |           |           | 2008              | and beyond |
| -----  |          |          |           |           |                   |            |
| Related to Obligations Recorded on the Balance Sheet |          |          |           |           |                   |            |
| -----  |          |          |           |           |                   |            |
| Credit Facility (a)                                  | \$ 1,500 | \$ 1,500 | \$ --     | \$ --     | \$ --             | \$ --      |
| Letters of Credit (non-debt) (b)                     | 119      | 45       | 74        | --        | --                | --         |
| Letters of Credit (long-term debt) (c)               | 456      | 158      | 298       | --        | --                | --         |
| Preferred Securities Guarantee (d, e)                | 528      | --       | --        | --        | --                | 528        |
| Guarantees of Long-Term Debt (f)                     | 41       | --       | 2         | --        | --                | 39         |
| Midwest Generation Capacity                          |          |          |           |           |                   |            |
| Reservation Agreement Guarantee (g)                  | 34       | 2        | 7         | 7         |                   | 18         |
| Other  |          |          |           |           |                   |            |
| -----  |          |          |           |           |                   |            |
| Guarantees of Letters of Credit (h)                  | 93       | 77       | 16        | --        | --                | --         |
| Performance Guarantees (i)                           | 101      | --       | --        | --        | --                | 101        |
| Surety Bonds (j)                                     | 681      | 241      | 286       | 3         |                   | 151        |
| Energy Marketing Contract                            |          |          |           |           |                   |            |
| Guarantees (k)                                       | 207      | 92       | 115       | --        | --                | --         |
| Nuclear Insurance Guarantees (l)                     | 1,380    | --       | --        | --        | --                | 1,380      |
| Lease Guarantees (m)                                 | 13       | --       | --        | 2         |                   | 11         |
| EBG Equity Guarantee (n)                             | 38       | 38       | --        | --        | --                | --         |
| Fuel purchase agreements (o)                         | 2,169    | 308      | 690       | 637       |                   | 534        |
| -----  |          |          |           |           |                   |            |
| Total  | \$ 7,360 | \$ 2,461 | \$ 1,488  | \$ 649    | \$                | 2,762      |
| =====  |          |          |           |           |                   |            |

| ComEd  | Total  | 2003   | 2004-2005 | 2006-2007 | Expiration within |            |
|--|--------|--------|-----------|-----------|-------------------|------------|
|  |        |        |           |           | 2008              | and beyond |
| -----  |        |        |           |           |                   |            |
| Related to Obligations Recorded on the Balance Sheet |        |        |           |           |                   |            |
| -----  |        |        |           |           |                   |            |
| Credit Facility (a)                                  | \$ 100 | \$ 100 | \$ --     | \$ --     | \$                | --         |
| Letters of Credit (non-debt) (b)                     | 23     | 4      | 19        | --        | --                | --         |
| Letters of Credit (long-term debt) (c)               | 92     | 92     | --        | --        | --                | --         |
| Preferred Securities Guarantees (e)                  | 350    | --     | --        | --        | --                | 350        |
| Midwest Generation Capacity                          |        |        |           |           |                   |            |
| Reservation Agreement Guarantee (g)                  | 34     | 2      | 7         | 7         |                   | 18         |
| Other  |        |        |           |           |                   |            |
| -----  |        |        |           |           |                   |            |
| Surety Bonds (j)                                     | 21     | --     | 3         | --        |                   | 18         |
| -----  |        |        |           |           |                   |            |
| Total  | \$ 620 | \$ 198 | \$ 29     | \$ 7      | \$                | 386        |
| =====  |        |        |           |           |                   |            |

| PECO   | Total  | 2003   | 2004-2005 | 2006-2007 | Expiration within |        |
|--|--------|--------|-----------|-----------|-------------------|--------|
|  |        |        |           |           | 2008 and beyond   |        |
| -----  |        |        |           |           |                   |        |
| Related to Obligations Recorded on the Balance Sheet |        |        |           |           |                   |        |
| Credit Facility (a)                                  | \$ 400 | \$ 400 | \$ --     | \$ --     | \$ --             | \$ --  |
| Letters of Credit (non-debt) (b)                     | 31     | 1      | 30        | --        | --                | --     |
| Preferred Securities Guarantees (d)                  | 178    | --     | --        | --        | --                | 178    |
| Other  |        |        |           |           |                   |        |
| -----  |        |        |           |           |                   |        |
| Surety Bonds (j)                                     | 45     | 1      | 44        | --        | --                | --     |
| Total  | \$ 654 | \$ 402 | \$ 74     | \$ --     | \$ --             | \$ 178 |
| =====  |        |        |           |           |                   |        |

| Generation   | Total    | 2003   | 2004-2005 | 2006-2007 | Expiration within |        |
|--|----------|--------|-----------|-----------|-------------------|--------|
|  |          |        |           |           | 2008 and beyond   |        |
| -----  |          |        |           |           |                   |        |
| Related to Obligations Recorded on the Balance Sheet |          |        |           |           |                   |        |
| Credit Facility (a)                                  | \$ --    | \$ --  | \$ --     | \$ --     | \$ --             | \$ --  |
| Letters of Credit (non-debt) (b)                     | 16       | 9      | 7         | --        | --                | --     |
| Letters of Credit (long-term debt) (c)               | 364      | 66     | 298       | --        | --                | --     |
| Other  |          |        |           |           |                   |        |
| -----  |          |        |           |           |                   |        |
| Guarantees of Letters of Credit (h)                  | 66       | 66     | --        | --        | --                | --     |
| Performance Guarantees (i)                           | 101      | --     | --        | --        | --                | 101    |
| Surety Bonds (j)                                     | 43       | --     | --        | --        | --                | 43     |
| Energy Marketing Contract Guarantees (k)             | 24       | 24     | --        | --        | --                | --     |
| Nuclear Insurance Guarantee (p)                      | 134      | --     | --        | --        | --                | 134    |
| EBG Equity Guarantee (n)                             | 38       | 38     | --        | --        | --                | --     |
| Fuel purchase agreements (o)                         | 2,169    | 308    | 690       | 637       |                   | 534    |
| Total  | \$ 2,955 | \$ 511 | \$ 995    | \$ 637    | \$ --             | \$ 812 |
| =====  |          |        |           |           |                   |        |

- (a) Credit Facility - Exelon, along with ComEd, PECO and Generation, maintain a \$1.5 billion 364-day credit facility to support commercial paper issuances. At June 30, 2003, there were no borrowings against the credit facility. Additionally, at June 30, 2003, commercial paper outstanding was as follows:
- |                  |        |
|------------------|--------|
| Exelon Corporate | \$ 411 |
| ComEd            | --     |
| PECO             | 170    |
| Generation       | --     |
- (b) Letters of Credit (non-debt) - Exelon and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.
- (c) Letters of Credit (long-term debt) - Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.
- (d) Preferred Securities Guarantee - Guarantees issued to guarantee the preferred securities of the subsidiary trusts of PECO.
- (e) Preferred Securities Guarantees - Guarantees issued to guarantee the preferred securities of the subsidiary trusts of ComEd.
- (f) Guarantees of Long-Term Debt - Issued to guarantee payment of Enterprises' debt.
- (g) Midwest Generation Capacity Reservation Agreement Guarantee - In connection with ComEd's agreement with the City of Chicago (Chicago) entered into on February 20, 2003, Midwest Generation assumed from Chicago a Capacity Reservation Agreement that Chicago had entered into with Calumet Energy Team, LLC. ComEd will reimburse Chicago for any nonperformance by Midwest Generation under the Capacity Reservation Agreement. The fair value of this guarantee under FIN 45 of \$4 million is included as a liability on Exelon and ComEd's Consolidated Balance Sheets. Additional information regarding this liability is included within this section under the heading "General" below.
- (h) Guarantees of letters of credit - Guarantees issued to provide support for letters of credit as required by third parties. These guarantees could be called upon only in the event of non-payment by a subsidiary.
- (i) Performance Guarantees - Guarantees issued to ensure performance under specific contracts.
- (j) Surety Bonds - Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

- (k) Energy Marketing Contract Guarantees - Guarantees issued to ensure performance under energy commodity contracts.
- (l) Nuclear Insurance Guarantees - Guarantees of nuclear insurance required under the Price-Anderson Act. \$1.1 billion of this total exposure is exempt from the \$4.5 billion PUHCA guarantee limit by SEC rule.
- (m) Lease Guarantees - Guarantees issued to ensure payments on building leases.
- (n) EBG Equity Guarantee- See Note 3 - Acquisitions, Dispositions and Retirements for further information on the \$38 million guarantee. Pursuant to existing guarantees, after construction of the EBG facilities is complete, Exelon could be required to pay up to an additional \$42 million relating to various construction and tax obligations.
- (o) Fuel Purchase Agreements - Commitments to purchase fuel supplies for nuclear generation.
- (p) Nuclear Insurance Guarantee - Guarantees of nuclear insurance required under the Price-Anderson Act. This amount relates to Generation's guarantee of AmerGen's plants. Exelon has a \$1.2 billion guarantee relating to Generation's directly owned plants that is not included in this amount.

#### Credit Contingencies

Generation is a counterparty to Dynegy in various energy transactions. In early July 2002, the credit ratings of Dynegy were downgraded to below investment grade by two credit rating agencies. As of June 30, 2003, Generation had a net receivable from Dynegy of approximately \$4 million and, consistent with the terms of the existing credit arrangement, has received collateral in support of this receivable. Generation also has credit risk associated with Dynegy through Generation's equity investment in Sithe. Sithe is a 60% owner of the Independence generating station (Independence), a 1,040-MW gas-fired qualified facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of June 30, 2003, Sithe had recognized an asset on its balance sheet related to the fair market value of the financial swap agreement with Dynegy that is marked to market under the terms of SFAS No. 133. If Dynegy is unable to fulfill the terms of this agreement, Sithe would be required to impair this financial swap asset. Generation estimates, as a 49.9% owner of Sithe, that the impairment would result in an after-tax reduction of its earnings of approximately \$17 million.

In addition to the impairment of the financial swap asset, if Dynegy were unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation may incur a further impairment associated with Independence.

Additionally, the future economic value of AmerGen's PPA with Illinois Power Company, a subsidiary of Dynegy, could be impacted by events related to Dynegy's financial condition.

In connection with ComEd's sale of assets to Midwest Generation prior to the Merger, ComEd had entered into an Agency Agreement with Midwest Generation and certain of Midwest Generation's related parties (the "Guarantors") whereby the Guarantors assumed the benefits and liabilities of a coal purchase contract. ComEd remained the signatory to the coal contract, and in connection with the Merger and subsequent restructuring, Generation assumed the signatory obligation on this contract from ComEd. Midwest Generation's credit ratings have recently been downgraded by certain credit rating agencies. In the event of Midwest Generation and the Guarantors non-performance under the coal purchase contract, Generation would be required to fulfill the purchase commitments which extend through 2012. The contract requires the purchase of two million tons of coal annually, or specifies a minimum payout. Based upon current market prices, Generation's contingent obligations for the contract years 2003 to 2012 are estimated to be approximately \$81 million related to this agreement. Generation and ComEd have entered

into other agreements with Midwest Generation in which the non-performance by Midwest Generation is currently not anticipated to result in significant contingent obligations to Generation or ComEd.

#### Spent Fuel Storage

In connection with a July 2000 agreement between PECO and the U.S. Department of Energy (DOE) relating to the Peach Bottom Station Nuclear Waste Fund and interim spent nuclear fuel storage costs, Generation is currently in discussions with the DOE regarding possible repayment of amounts received as credits against contributions to the Nuclear Waste Fund. Based upon discussions with the DOE, Generation estimates the range of potential liability to be \$0 to \$20 million, excluding any additional recoveries. At June 30, 2003, based upon the status of the discussions and uncertainty surrounding the amounts to be repaid, if any, no amounts have been accrued. See Note 9 - Nuclear Decommissioning and Spent Nuclear Fuel Storage in Generation's Form 10-K for the year ended December 31, 2002 for additional information regarding this matter.

#### General

On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago \$60 million over ten years (\$6 million was paid during the first quarter of 2003) and be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility. Under the Midwest Agreement, ComEd received from Midwest Generation \$22 million during the first quarter 2003 and \$10 million during April 2003, to relieve Midwest Generation's obligation under the fossil sale agreement. Midwest Generation also assumed from Chicago a Capacity Reservation Agreement that Chicago had entered into with Calumet Energy Team, LLC (CET), which is effective through June 2012. ComEd is obligated to reimburse Chicago for any nonperformance by Midwest Generation under the Capacity Reservation Agreement and paid approximately \$2 million for amounts owed to CET by Chicago at the time the agreement was executed. In the first quarter of 2003, ComEd recorded a guarantee liability of \$4 million under the provisions of FIN No. 45 related to its obligation to reimburse Chicago for any nonperformance by Midwest Generation. The net effect of the settlement to ComEd will be amortized over the remaining life of the franchise agreement with Chicago.

ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the Internal Revenue Service (IRS). The fees for these agreements are contingent upon a successful outcome and are based upon a percentage of the refunds recovered from the IRS, if any. As such, ComEd and PECO would have positive net cash flows related to these agreements if any fees are paid to the tax consultant. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. ComEd's tax benefits for periods prior to the Merger would be recorded as a reduction of goodwill pursuant to a reallocation of the Merger purchase price. ComEd and PECO cannot predict the timing of the final resolution of these refund claims.

In the second quarter of 2003, Exelon progressed in its plans to implement its new business model referred to as The Exelon Way. The Exelon Way is focused on improving operating cash flows while meeting service and financial commitments through improved integration of operations and consolidation of support functions. Exelon is working to meet its goals of approximately \$300 million of annual cash savings beginning in 2004 and increasing the annual cash savings to \$600 million in 2006. As part of the implementation of The Exelon Way, Exelon anticipates incurring expenses associated with the rationalization of certain business functions and employee separation costs. These expenses may be significant and are expected to be incurred during the remaining half of 2003 through 2005. However, these costs cannot be reasonably estimated at this time.

#### 9. LONG-TERM DEBT AND PREFERRED SECURITIES (Exelon, ComEd, PECO and Generation)

On May 15, 2003, ComEd redeemed \$42 million of 5.875% Pollution Control Revenue Bonds 1977 Series A, due May 15, 2007 originally issued through the Illinois Industrial Pollution Control Financing Authority.

On May 8, 2003, ComEd issued \$40 million of variable interest Pollution Control Revenue Refunding Bonds due May 15, 2017 through the Illinois Development Finance Authority.

On April 15, 2003, ComEd redeemed \$160 million of its First Mortgage Bonds, at a redemption price of 103.664% of the principal amount, plus accrued interest. The bonds, which carried an interest rate of 8%, were refinanced with long-term debt issued on April 7, 2003.

On April 7, 2003, ComEd issued \$395 million of 4.70% First Mortgage Bonds, due on April 15, 2015. The proceeds of these bonds were used to refund other First Mortgage Bonds.

On March 20, 2003, ComEd redeemed \$200 million of its trust preferred securities at a redemption price of 100% of the principal amount, plus accrued distributions. The preferred securities, which carried an interest rate of 8.48%, were refinanced with the proceeds from a March 17, 2003 issue of \$200 million of trust preferred securities which have an annual distribution rate of 6.35% and are mandatorily redeemable in 2033.

On March 18, 2003, ComEd redeemed \$236 million of its First Mortgage Bonds, at a redemption price of 103.863% of the principal amount, plus accrued interest. The bonds, which carried an interest rate of 8.375%, were refinanced with long-term debt issued on April 7, 2003.

On January 22, 2003, ComEd issued \$350 million of 3.70% First Mortgage Bonds, due in 2008 and \$350 million of 5.875% First Mortgage Bonds, due in 2033. These bond issuances were used to refinance long-term debt that had been previously retired during the third and fourth quarters of 2002.

During the six months ended June 30, 2003, Exelon and ComEd retired \$267 million and \$52 million of commercial paper classified as long-term debt, respectively.

During the six months ended June 30, 2003, ComEd recorded prepayment premiums of \$15 million and net unamortized premiums, discounts and debt issuance expenses of \$31 million, associated with the early retirement of debt in 2003 that have been deferred by ComEd in regulatory assets and will be amortized to interest expense over the life of the related new debt issuance consistent with regulatory recovery.

On June 24, 2003, PECO issued \$100 million of trust preferred securities with an annual distribution rate of 5.75% that are mandatorily redeemable in 2033. These securities were recorded as liabilities in accordance with SFAS No. 150 (see Note 2 - New Accounting Principles and Accounting Changes). The proceeds of the issue were used to redeem the trust preferred securities and preferred stock discussed below.

Also on June 24, 2003, PECO redeemed \$50 million of its 8.00% trust preferred securities at a redemption price of \$25 per trust receipt, plus accrued and unpaid distributions.

On June 11, 2003, PECO redeemed \$50 million of its \$7.48 preferred stock at a redemption price of \$103.74 per share, plus accrued and unpaid dividends.

On April 28, 2003, PECO issued \$450 million of 3.50% First and Refunding Mortgage Bonds due on May 1, 2008. The proceeds from the sale of the bonds were used to repay aggregate principal of maturing debt and to repay commercial paper that was used to refinance long-term debt.

On June 13, 2003, Generation closed on a \$550 million revolving credit facility. Generation used the facility to make the first payment to Sithe relating to the \$536 million note that was used to purchase Exelon New England from Sithe. This note was restructured in June 2003 to provide for a payment of \$210 million of the principal on June 16, 2003 and the remaining principal on the earlier of December 1, 2003 or change of control.

On June 3, 2003, Generation issued \$17 million of variable rate Pollution Control Revenue Refunding Bonds, Series A, due June 1, 2027 through the Indiana County Industrial Development Authority. The proceeds of these bonds were used to refund \$17 million of Pollution Control Revenue Refunding Bonds, due June 1, 2027, issued on behalf of PECO.

See Note 7 - Fair Value of Financial Assets and Liabilities for additional information regarding interest rate swaps of ComEd, PECO and Generation.

#### 10. UNCONSOLIDATED INVESTMENTS (Exelon and Generation)

During the three months ended June 30, 2003, Exelon recorded an impairment charge of \$35 million (before income taxes) in other income and deductions within the Consolidated Statements of Income and Comprehensive Income related to an other-than-temporary decline in value of certain investments held by Enterprises. Management of Exelon and Enterprises considered various factors in the decision to record an impairment of these investments, including recent valuations of the investments. This impairment reduced the book value of these investments from \$42 million at December 31, 2002 to \$7 million at June 30, 2003.

##### Generation

Generation is a 49.9% owner of Sithe and has accounted for the investment as an unconsolidated equity investment through June 30, 2003. In the first quarter of 2003, Exelon and Generation recorded an impairment charge of \$200 million (before income taxes) in other income and deductions, associated with a decline in the Sithe investment fair value, which was considered to be other than temporary. Exelon and Generation's management considered various factors in the decision to record an impairment of this investment, including management's recent experience of exploring the sale of its interest in Sithe. The discussions surrounding the sale indicated that the fair value of the Sithe investment was below its book value, and as such, an impairment charge was required. The book value of Generation's investment in Sithe was \$209 million at June 30, 2003. For the six months ended June 30, 2003, Sithe had revenues of \$356 million. Generation recorded \$1.6 million of equity method losses for Sithe for the six months ended June 30, 2003. See Note 2 - New Accounting Principles and Accounting Changes for discussion of Sithe in relation to FIN No. 46.

On May 29, 2003, Exelon Fossil Holdings, Inc., a wholly-owned subsidiary of Generation, issued an irrevocable call notice for the 35.2% interest in Sithe owned by Apollo Energy, LLC and the 14.9% interest owned by subsidiaries of Marubeni Corporation. The total call price was based on the terms of the existing Put and Call Agreement (PCA) among the parties and approximated \$650 million. The transfer of ownership requires various regulatory approvals, including FERC, the state environmental agency in New Jersey, and expiration of the Hart Scott Rodino waiting period.

Under the terms of the PCA, the call must be funded within six months of the call notice being issued. Additionally, because the Federal Power Act restricts Exelon's ownership of 50% or more of qualifying facilities, the qualifying facilities owned by Sithe must be sold or restructured before closing to preserve their status as qualifying facilities. Despite the issuance of the call notice, Generation continues to pursue options to sell its investment in Sithe in its entirety.

Generation is a 50% owner of AmerGen and has accounted for the investment as an unconsolidated equity investment through June 30, 2003. The book value of Generation's investment in AmerGen was \$260 million at June 30, 2003. For the six months ended June 30, 2003, AmerGen had revenues of \$307 million. Generation recorded \$29 million of equity method earnings for AmerGen for the six months ended June 30, 2003.

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

Exelon's financial statements reflect related-party transactions with unconsolidated affiliates as reflected in the tables below.

|                                  | Three Months Ended June 30, |       | Six Months Ended June 30, |        |
|----------------------------------|-----------------------------|-------|---------------------------|--------|
|                                  | 2003                        | 2002  | 2003                      | 2002   |
| Purchased power from AmerGen (1) | \$ 110                      | \$ 60 | \$ 177                    | \$ 116 |
| Interest income from AmerGen (2) | --                          | --    | 1                         | 1      |
| Interest expense to Sithe (3)    | 3                           | --    | 6                         | --     |
| Services provided to AmerGen (4) | 18                          | 16    | 35                        | 30     |
| Services provided to Sithe (5)   | --                          | --    | 1                         | --     |
| Services provided by Sithe (6,7) | 2                           | --    | 5                         | 1      |

|                                     | June 30, 2003 | December 31, 2002 |
|-------------------------------------|---------------|-------------------|
| Net receivable from AmerGen (1,2,4) | \$ --         | \$ 39             |
| Net payable to AmerGen (1,2,4)      | 17            | --                |
| Net payable to Sithe (5,6,7)        | 5             | 7                 |
| Note payable to Sithe (3)           | 326           | 534               |

- (1) Generation has entered into PPAs dated June 26, 2003, December 18, 2001, and November 22, 1999 with AmerGen. Generation has agreed to purchase 100% of the energy generated by Oyster Creek through April 9, 2009. Generation has agreed to purchase all the energy from Unit No. 1 at Three Mile Island Nuclear Station from January 1, 2002 through December 31, 2014. Generation has agreed to purchase all of the residual energy from Clinton through December 31, 2004. Currently, the residual output is approximately 31% of the total output of Clinton.
- (2) In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate equal to the one-month London Interbank Offering Rate plus 2.25%. In July 2002, the limit of the loan agreement was increased to \$100 million and the maturity date was extended to July 1, 2003. As of June 30, 2003, the principal balance of the loan was paid in full.
- (3) Under the terms of the agreement to acquire Exelon New England dated November 1, 2002, Generation issued a \$534 million note to be paid in full on June 18, 2003 to Sithe. In June 2003, the principal of the note was increased \$2 million and the payment terms of the note were changed. Generation paid \$210 million of principal in June 2003 and the balance of the note is to be paid by December 1, 2003 or upon change of control. The note bears interest at the rate equal to LIBOR plus 0.875%. Interest accrued on the note as of June 30, 2003 was \$0.3 million.
- (4) Under a service agreement dated March 1, 1999, Generation provides AmerGen with certain operation and support services to the nuclear facilities owned by AmerGen. This service agreement has an indefinite term and may be terminated by Generation or AmerGen with 90 days notice. Generation is compensated for these services at cost. Exelon also provides AmerGen with certain payroll processing services.
- (5) Under a service agreement dated December 18, 2000, Generation provides certain engineering and environmental services for fossil facilities owned by Sithe and for certain developmental projects. Generation is compensated for these services at cost.
- (6) Under a service agreement dated December 18, 2000, Sithe provides Generation certain fuel and project development services. Sithe is compensated for these services at cost.
- (7) Under a service agreement dated November 1, 2002, Sithe provides Generation certain transition services related to the transition of the New England acquisition that occurred on November 1, 2002.



ComEd

ComEd's financial statements reflect related-party transactions as reflected in the tables below.

|   | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|---|-----------------------------|-------|---------------------------|-------|
|   | 2003                        | 2002  | 2003                      | 2002  |
| -----                                   |                             |       |                           |       |
| Operating revenues from affiliates      |                             |       |                           |       |
| Generation (1)                          | \$ 15                       | \$ 10 | \$ 26                     | \$ 19 |
| Enterprises (1)                         | 1                           | 2     | 3                         | 4     |
| Purchased power from affiliate          |                             |       |                           |       |
| Generation (2)                          | 528                         | 547   | 1,099                     | 1,079 |
| Operating & maintenance from affiliates |                             |       |                           |       |
| BSC (3)                                 | 25                          | 26    | 52                        | 65    |
| Enterprises (4,5)                       | 3                           | 3     | 6                         | 6     |
| Interest income from affiliates         |                             |       |                           |       |
| UII (6)                                 | 6                           | 7     | 12                        | 15    |
| Generation (11)                         | 1                           | --    | 1                         | --    |
| Other                                   | --                          | 1     | --                        | 1     |
| Capitalized costs                       |                             |       |                           |       |
| BSC (3)                                 | 1                           | 2     | 2                         | 3     |
| Enterprises (5)                         | 6                           | 6     | 12                        | 13    |
| Cash dividends paid to parent           | 91                          | 117   | 211                       | 235   |
| -----                                   |                             |       |                           |       |

|  | June 30, 2003 | December 31, 2002 |
|--|---------------|-------------------|
| -----  |               |                   |
| Receivables from affiliates (current)              |               |                   |
| UII (6)  | \$ 12         | \$ 15             |
| Generation (11)                                    | 165           | --                |
| Receivables from affiliates (noncurrent)           |               |                   |
| UII (6)  | 1,284         | 1,284             |
| Generation (9)                                     | 1,094         | --                |
| Other  | 19            | 16                |
| Payables to affiliates (current)                   |               |                   |
| Generation decommissioning (8)                     | 11            | 59                |
| Generation (1, 2, 7)                               | 185           | 339               |
| BSC (3, 7)   | 11            | 18                |
| Other  | 2             | --                |
| Payables to affiliates (noncurrent)                |               |                   |
| Generation decommissioning obligation (8)          | 19            | 218               |
| Other  | 7             | 6                 |
| Shareholders' equity - receivable from parent (10) | 554           | 615               |
| -----  |               |                   |

- (1) ComEd provides electric, transmission, and other ancillary services to Generation and Enterprises.
- (2) Effective January 1, 2001, ComEd entered into a PPA with Generation. See Note 8 - Commitments and Contingencies for further information regarding the PPA. The Generation payable primarily consists of services related to the PPA.
- (3) ComEd receives a variety of corporate support services from Exelon Business Services Company (BSC), including legal, human resource, financial, information technology, supply management and corporate governance services. A portion of such services, provided at cost including applicable overhead, is capitalized.
- (4) ComEd has contracted with Exelon Services to provide energy conservation services to ComEd customers.
- (5) ComEd receives substation and transmission engineering and construction services under contracts with InfraSource. A portion of such services is capitalized.
- (6) ComEd has a note and interest receivable with a variable interest rate of the one month forward LIBOR rate plus 50 basis points from Unicom Investments Inc. (UII) relating to the December 1999 fossil plant sale. This note matures in December 2011.

- (7) In order to benefit from economies of scale, ComEd processes certain invoice payments on behalf of Generation and BSC.
- (8) ComEd has a short-term and long-term payable to Generation, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation.
- (9) ComEd has a receivable from Generation, related to a regulatory liability as a result of the adoption of SFAS No. 143. For further information see Note 2 - New Accounting Principles and Accounting Changes.
- (10) ComEd has a non-interest bearing receivable from Exelon related to Exelon's agreement to fund future income tax payments resulting from the collection by ComEd of instrument funding changes. The receivable is expected to be settled over the years 2003 through 2008.
- (11) ComEd participates in Exelon's intercompany money pool. ComEd had various notes to and earned interest from Generation under the money pool.

PECO

PECO's financial statements reflect a number of related-party transactions as reflected in the table below.

|   | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|---|-----------------------------|------|---------------------------|------|
|   | 2003                        | 2002 | 2003                      | 2002 |
| -----                                   |                             |      |                           |      |
| Operating revenues from affiliate       |                             |      |                           |      |
| Generation (1)                          | \$ 3                        | \$ 3 | \$ 5                      | \$ 7 |
| Purchased power from affiliate          |                             |      |                           |      |
| Generation (2)                          | 324                         | 346  | 681                       | 649  |
| Operating & maintenance from affiliates |                             |      |                           |      |
| BSC (3)                                 | 10                          | 9    | 22                        | 26   |
| Enterprises (4)                         | 1                           | 8    | 3                         | 16   |
| Capitalized costs                       |                             |      |                           |      |
| BSC (3)                                 | 2                           | 5    | 5                         | 6    |
| Enterprises (4)                         | 7                           | --   | 13                        | 10   |
| Cash dividends paid to parent           | 76                          | 85   | 165                       | 170  |
| -----                                   |                             |      |                           |      |

|   | June 30, 2003 | December 31, 2002 |
|---|---------------|-------------------|
| -----   |               |                   |
| Payables to affiliates (current)                  |               |                   |
| Generation (2)                                    | \$ 121        | \$ 124            |
| BSC (3)   | 12            | 26                |
| Enterprises (4)                                   | 3             | 19                |
| Other   | 1             | 1                 |
| Payable to affiliate (noncurrent)                 |               |                   |
| Generation (5)                                    | 16            | --                |
| Shareholders' equity - receivable from parent (6) | 1,698         | 1,758             |
| -----   |               |                   |

- (1) PECO provides energy to Generation for Generation's own use.
- (2) Effective January 1, 2001, PECO entered into a PPA with Generation. See Note 8 - Commitments and Contingencies for further information regarding the PPA.
- (3) PECO provides services to BSC related to invoice processing. PECO receives a variety of corporate support services from BSC, including legal, human resource, financial, information technology, supply management and corporate governance services. Such services are provided at cost, including applicable overhead. Some of these costs are capitalized.
- (4) PECO receives services from Enterprises for construction, which are capitalized, and the deployment of automated meter reading technology, which are expensed.
- (5) PECO has a payable to Generation related to a regulatory asset as a result of the adoption of SFAS No. 143. See Note 2 - New Accounting Principles and Accounting Changes for further discussion of the adoption of SFAS No. 143.
- (6) PECO has a non-interest bearing receivable from Exelon related to Exelon's agreement to fund future income tax payments resulting from the collection of PECO's stranded costs recovery. The receivable is expected to be settled over the years 2003 through 2010.

Generation

Generation's financial statements reflect related-party transactions with unconsolidated affiliates as reflected in the tables below.

|                                     | Three Months Ended June 30, |       | Six Months Ended June 30, |                   |
|-------------------------------------|-----------------------------|-------|---------------------------|-------------------|
|                                     | 2003                        | 2002  | 2003                      | 2002              |
| Purchased power from AmerGen (1)    | \$ 110                      | \$ 60 | \$ 177                    | \$ 116            |
| Interest income from AmerGen (2)    | --                          | --    | 1                         | 1                 |
| Interest expense to Sithe (3)       | 3                           | --    | 6                         | --                |
| Services provided to AmerGen (4)    | 18                          | 16    | 35                        | 30                |
| Services provided to Sithe (5)      | --                          | --    | 1                         | --                |
| Services provided by Sithe (6,7)    | 2                           | --    | 5                         | 1                 |
|                                     |                             |       |                           |                   |
|                                     |                             |       | June 30, 2003             | December 31, 2002 |
| Net receivable from AmerGen (1,2,4) |                             | \$ -- |                           | \$ 39             |
| Net payable to AmerGen (1,2,4)      |                             | 19    |                           | --                |
| Net payable to Sithe (5,6,7)        |                             | 5     |                           | 7                 |
| Note payable to Sithe (3)           |                             | 326   |                           | 534               |

- (1) Generation has entered into PPAs dated June 26, 2003, December 18, 2001, and November 22, 1999 with AmerGen. Generation has agreed to purchase 100% of the energy generated by Oyster Creek through April 9, 2009. Generation has agreed to purchase all the energy from Unit No. 1 at Three Mile Island Nuclear Station from January 1, 2002 through December 31, 2014. Generation agreed to purchase all of the residual energy from Clinton not sold to Illinois Power through December 31, 2004. Currently, the residual output is approximately 31% of the total output of Clinton, but will increase to 100% and the obligation will continue until the Clinton NRC license expires in 2026.
- (2) In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate equal to the one-month London Interbank Offering Rate plus 2.25%. In July 2002, the limit of the loan agreement was increased to \$100 million and the maturity date was extended to July 1, 2003. As of June 30, 2003, the principal balance of the loan was paid in full. Total interest earned on the loan was less than \$1 million during the three and six months ended June 30, 2003 and 2002.
- (3) Under the terms of the agreement to acquire Exelon New England dated November 1, 2002, Generation issued a \$534 million note to be paid in full on June 18, 2003 to Sithe. In June 2003, the principal of the note was increased \$2 million and the payment terms of the note were changed. Generation paid \$210 million of principal in June 2003 and the balance of the note is to be paid by December 1, 2003 or upon change of control. The note bears interest at the rate equal to LIBOR plus 0.875%. Interest accrued on the note as of June 30, 2003 was \$0.3 million.
- (4) Under a service agreement dated March 1, 1999, Generation provides AmerGen with certain operation and support services to the nuclear facilities owned by AmerGen. This service agreement has an indefinite term and may be terminated by Generation or AmerGen with 90 days notice. Generation is compensated for these services at cost.
- (5) Under a service agreement dated December 18, 2000, Generation provides certain engineering and environmental services for fossil facilities owned by Sithe and for certain developmental projects. Generation is compensated for these services at cost. Total revenue earned under this service agreement was less than \$1 million for the three and six months ended June 30, 2003 and 2002.
- (6) Under a service agreement dated December 18, 2000, Sithe provides Generation certain fuel and project development services. Sithe is compensated for these services at cost.
- (7) Under a service agreement dated November 1, 2002, Sithe provides Generation certain transition services related to the transition of the Exelon New England asset acquisition which occurred November 1, 2002.

In addition to the transactions with unconsolidated affiliates described above, Generation's financial statements reflect a number of related-party transactions as reflected in the tables below.

|   | Three Months Ended June 30, |        | Six Months Ended June 30, |          |
|---|-----------------------------|--------|---------------------------|----------|
|   | 2003                        | 2002   | 2003                      | 2002     |
| Operating revenues from affiliates      |                             |        |                           |          |
| ComEd (1)                               | \$ 528                      | \$ 547 | \$ 1,099                  | \$ 1,079 |
| PECO (1)                                | 324                         | 346    | 681                       | 649      |
| Exelon Energy Company (2)               | 44                          | 60     | 109                       | 117      |
| Purchased power from affiliates         |                             |        |                           |          |
| ComEd (4)                               | 13                          | 8      | 20                        | 14       |
| PECO (4)                                | --                          | 3      | --                        | 5        |
| Exelon Energy Company (4)               | 2                           | --     | 9                         | 2        |
| Operating & maintenance from affiliates |                             |        |                           |          |
| ComEd (4)                               | 2                           | 2      | 6                         | 5        |
| PECO (4)                                | 3                           | --     | 5                         | 2        |
| BSC (6)                                 | 35                          | 35     | 71                        | 87       |
| Interest expense - affiliate            |                             |        |                           |          |
| ComEd (8)                               | 1                           | --     | 1                         | --       |
| Exelon (3)                              | --                          | 1      | 1                         | 1        |
| Cash distribution paid to member        | 45                          | --     | 45                        | --       |

|  | June 30, 2003 | December 31, 2002 |
|--|---------------|-------------------|
| Receivables from affiliates (current)    |               |                   |
| ComEd (1)                                | \$ 185        | \$ 339            |
| ComEd decommissioning receivable (7)     | 11            | 59                |
| PECO (1)                                 | 121           | 124               |
| BSC (6)                                  | --            | 14                |
| Exelon Energy Company (2)                | 16            | 19                |
| Other                                    | 1             | --                |
| Receivables from affiliates (noncurrent) |               |                   |
| ComEd decommissioning receivable (7)     | 19            | 218               |
| PECO decommissioning receivable (5)      | 16            | --                |
| Other                                    | --            | 2                 |
| Payables to affiliates (current)         |               |                   |
| Exelon (3)                               | 3             | 3                 |
| BSC (6)                                  | 18            | --                |
| Payable to affiliate (noncurrent)        |               |                   |
| ComEd decommissioning (5)                | 1,094         | --                |
| Notes payable to affiliate - Exelon (3)  | 226           | 329               |
| Notes payable to affiliates - ComEd (8)  | 165           | --                |

- (1) Effective January 1, 2001, Generation entered into PPAs with ComEd and PECO. See Note 8 - Commitments and Contingencies for further information on the PPAs.
- (2) Generation sells power to Exelon Energy Company (an Enterprises company).
- (3) Generation has a payable to Exelon related to certain compensation plans.
- (4) Generation purchases power from PECO for Generation's own use, buys back excess power from Exelon Energy Company and purchases transmission and ancillary services from ComEd and PECO.
- (5) Generation has a long-term payable to ComEd and a long-term receivable from PECO as a result of the adoption of SFAS No. 143. See Note 2 - New Accounting Principles and Accounting Changes for further discussion of the adoption of SFAS No. 143.
- (6) Generation receives a variety of corporate support services from BSC, including legal, human resource, financial, information technology, supply management and corporate governance services. Such services are provided at cost, including applicable overhead. Some third-party reimbursements due Generation are recovered through BSC.

- (7) Generation has a short-term and had a long-term receivable from ComEd, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation resulting from the 2001 corporate restructuring.
- (8) Generation has a note payable to ComEd related to Generation's short-term liquidity requirements.

12. SUPPLEMENTAL FINANCIAL INFORMATION (Exelon, ComEd and PECO)

| ComEd  | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| -----  |                  |                      |
| Regulatory Assets (Liabilities)  |                  |                      |
| Nuclear decommissioning<br>(see Note 2 - New Accounting Principles and Accounting Changes) | \$ (1,094)       | \$ --                |
| Nuclear decommissioning costs for retired plants   | --               | 248                  |
| Recoverable transition costs   | 153              | 175                  |
| Reacquired debt costs and interest rate swap settlements                                   | 173              | 84                   |
| Recoverable deferred income taxes  | (64)             | (68)                 |
| Other  | 22               | 8                    |
| -----  |                  |                      |
| Total  | \$ (810)         | \$ 447               |
| =====  |                  |                      |

| PECO   | June 30,<br>2003 | December 31,<br>2002 |
|--|------------------|----------------------|
| -----  |                  |                      |
| Regulatory Assets  |                  |                      |
| Competitive transition charge  | \$ 4,478         | \$ 4,639             |
| Recoverable deferred income taxes  | 744              | 729                  |
| Non-pension postretirement benefits  | 62               | 64                   |
| Reacquired debt costs  | 51               | 53                   |
| Nuclear decommissioning and decontamination funds  | 29               | 32                   |
| Nuclear decommissioning<br>(see Note 2 - New Accounting Principles and Accounting Changes) | 16               | --                   |
| MGP regulatory asset (see Note 8 - Commitments and Contingencies)                          | 16               | 20                   |
| Compensated absences   | 15               | 6                    |
| Post-employment benefits   | 3                | 3                    |
| -----  |                  |                      |
| Long-term regulatory assets  | 5,414            | 5,546                |
| Deferred energy costs (current asset)  | 55               | 31                   |
| -----  |                  |                      |
| Total  | \$ 5,469         | \$ 5,577             |
| =====  |                  |                      |

Exelon's long-term regulatory assets and liabilities as of June 30, 2003 were \$5,414 million and \$810 million, respectively. Exelon's long-term regulatory assets as of December 31, 2002 were \$5,993 million.

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

(Dollars in millions, unless otherwise noted)

EXELON CORPORATION  
-----

GENERAL

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

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

See Note 6 of the Condensed Combined Notes to Consolidated Financial Statements for further segment information.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2003 Compared To Three Months Ended June 30, 2002

Net Income and Earnings Per Share

Exelon's net income for the three months ended June 30, 2003 decreased \$113 million or 23%, compared to the same period in 2002. Diluted earnings per common share on the same basis decreased \$0.36 per share, or 24%. The decrease in net income was due to unfavorable weather impacts at Energy Delivery due to cooler spring weather and a goodwill impairment charge recorded at the InfraSource, Inc. reporting unit within Enterprises during the second quarter 2003. Also, a gain was recorded in the second quarter of 2002 due to the sale of an investment in AT&T Wireless held by Enterprises. These decreases were partially offset by increased market sales and mark-to-market activity at Generation, reduced depreciation expense resulting from lower depreciation rates at Energy Delivery and decreased interest expense at Energy Delivery due to refinancing of outstanding debt at lower interest rates.

Results of Operations by Business Segment

Exelon evaluates its performance on a business segment basis. The comparisons presented under this heading are comparisons of operating results and other statistical information for the three months ended June 30, 2003 to operating results and other statistical information for the same period in 2002. These results reflect intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Exelon corporate operations provide the business segments a variety of support services including legal, human resources, financial, information technology, supply management and corporate governance services. These costs are allocated to the business segments. Additionally, the results of Exelon's corporate operations include costs for strategic long-term planning, certain governmental affairs, and interest costs and income from various investment and financing activities.

Net Income (Loss) by Business Segment

|                 | Three Months Ended June 30, |               | Variance        | % Change       |
|-----------------|-----------------------------|---------------|-----------------|----------------|
|                 | 2003                        | 2002          |                 |                |
| Energy Delivery | \$ 291                      | \$ 322        | \$ (31)         | (9.6%)         |
| Generation      | 142                         | 84            | 58              | 69.0%          |
| Enterprises     | (61)                        | 83            | (144)           | (173.5%)       |
| Corporate       | --                          | (4)           | 4               | (100.0%)       |
| <b>Total</b>    | <b>\$ 372</b>               | <b>\$ 485</b> | <b>\$ (113)</b> | <b>(23.3%)</b> |

Results of Operations - Energy Delivery

| Energy Delivery                                | Three Months Ended June 30, |          | Variance | % Change |
|--|-----------------------------|----------|----------|----------|
|  | 2003                        | 2002     |          |          |
| Operating revenues                             | \$ 2,322                    | \$ 2,476 | \$ (154) | (6.2%)   |
| Revenue, net of purchased power & fuel expense | 1,336                       | 1,465    | (129)    | (8.8%)   |
| Operating income                               | 666                         | 736      | (70)     | (9.5%)   |
| Income before income taxes                     | 481                         | 522      | (41)     | (7.9%)   |
| Net income                                     | 291                         | 322      | (31)     | (9.6%)   |

The changes in Energy Delivery's revenue, net of purchased power and fuel expense, for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o unfavorable weather impacts of \$66 million, primarily the result of cooler spring weather,
- o unfavorable pricing changes of \$22 million related to ComEd's Power Purchase Agreement (PPA) with Generation,
- o net unfavorable changes due to customer choice of \$20 million, including ComEd's customers electing to purchase energy from alternative energy suppliers or electing ComEd's Power Purchase Option (PPO), under which non-residential customers can purchase power from ComEd at a market-based rate, and customers in PECO's service territory selecting an alternative electric generation supplier,
- o unfavorable variance of \$16 million under the ComEd PPA with Generation related to decommissioning collections associated with the adoption of SFAS No. 143 in 2003,

- which were not recorded in purchased power in 2002 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements),
- o changes in customer rates resulting in an \$8 million unfavorable variance, and
  - o lower PJM ancillary charges resulting in a favorable variance of \$7 million.

The changes in operating income, other than changes in revenue net of purchased power and fuel expense, for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o reduction in depreciation expense of \$24 million due to the impact of lower depreciation rates at ComEd effective July 1, 2002, partially offset by increased depreciation expense in 2003 of \$11 million due to higher plant in service balances,
- o reduction of amortization expense of \$16 million for nuclear decommissioning of retired plants at ComEd due to the adoption of SFAS No. 143 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements),
- o decreased costs of \$7 million associated with the initial implementation of automated meter reading services at PECO, and
- o a reversal of \$12 million of accrued use tax at PECO as a result of an audit settlement.

The changes in income before income taxes for the three months ended June 30, 2003 compared to the same period in 2002 included a reduction in interest expense primarily related to a decrease of \$24 million attributable to less outstanding debt and refinancing of existing debt at lower interest rates.

Energy Delivery's effective income tax rate was 39.5% for the three months ended June 30, 2003, compared to 38.3% for the same period in 2002.



Energy Delivery Operating Statistics and Revenue Detail  
 Energy Delivery's electric sales statistics and revenue detail are as follows:

| Retail Deliveries - (in gigawatthours (Gwhs))(1) | Three Months Ended June 30, |               | Variance       | % Change       |
|--|-----------------------------|---------------|----------------|----------------|
|  | 2003                        | 2002          |                |                |
| <b>Bundled Deliveries (2)</b>                    |                             |               |                |                |
| Residential                                      | 7,437                       | 7,977         | (540)          | (6.8%)         |
| Small Commercial & Industrial                    | 6,646                       | 7,481         | (835)          | (11.2%)        |
| Large Commercial & Industrial                    | 5,378                       | 6,049         | (671)          | (11.1%)        |
| Public Authorities & Electric Railroads          | 1,555                       | 1,885         | (330)          | (17.5%)        |
| <b>Total Bundled Deliveries</b>                  | <b>21,016</b>               | <b>23,392</b> | <b>(2,376)</b> | <b>(10.2%)</b> |
| <b>Unbundled Deliveries (3)</b>                  |                             |               |                |                |
| <b>Alternative Energy Suppliers</b>              |                             |               |                |                |
| Residential                                      | 186                         | 557           | (371)          | (66.6%)        |
| Small Commercial & Industrial                    | 1,580                       | 1,179         | 401            | 34.0%          |
| Large Commercial & Industrial                    | 2,320                       | 1,635         | 685            | 41.9%          |
| Public Authorities & Electric Railroads          | 247                         | 181           | 66             | 36.5%          |
|  | <b>4,333</b>                | <b>3,552</b>  | <b>781</b>     | <b>22.0%</b>   |
| <b>PPO (ComEd Only)</b>                          |                             |               |                |                |
| Small Commercial & Industrial                    | 869                         | 839           | 30             | 3.6%           |
| Large Commercial & Industrial                    | 1,318                       | 1,392         | (74)           | (5.3%)         |
| Public Authorities & Electric Railroads          | 531                         | 274           | 257            | 93.8%          |
|  | <b>2,718</b>                | <b>2,505</b>  | <b>213</b>     | <b>8.5%</b>    |
| <b>Total Unbundled Deliveries</b>                | <b>7,051</b>                | <b>6,057</b>  | <b>994</b>     | <b>16.4%</b>   |
| <b>Total Retail Deliveries</b>                   | <b>28,067</b>               | <b>29,449</b> | <b>(1,382)</b> | <b>(4.7%)</b>  |

- (1) One GWh is the equivalent of one million kilowatthours (kWh).  
 (2) Bundled service reflects deliveries to customers taking electric generation service under tariffed rates.  
 (3) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier or ComEd's PPO.

Three Months Ended June 30,

| Electric Revenue                               | 2003            | 2002            | Variance        | % Change      |
|--|-----------------|-----------------|-----------------|---------------|
| <b>Bundled Revenues (1)</b>                    |                 |                 |                 |               |
| Residential                                    | \$ 769          | \$ 801          | \$ (32)         | (4.0%)        |
| Small Commercial & Industrial                  | 585             | 669             | (84)            | (12.6%)       |
| Large Commercial & Industrial                  | 351             | 404             | (53)            | (13.1%)       |
| Public Authorities & Electric Railroads        | 102             | 121             | (19)            | (15.7%)       |
| <b>Total Bundled Revenues</b>                  | <b>1,807</b>    | <b>1,995</b>    | <b>(188)</b>    | <b>(9.4%)</b> |
| <b>Unbundled Revenues (2)</b>                  |                 |                 |                 |               |
| <b>Alternative Energy Suppliers</b>            |                 |                 |                 |               |
| Residential                                    | 14              | 42              | (28)            | (66.7%)       |
| Small Commercial & Industrial                  | 49              | 30              | 19              | 63.3%         |
| Large Commercial & Industrial                  | 48              | 33              | 15              | 45.5%         |
| Public Authorities & Electric Railroads        | 8               | 5               | 3               | 60.0%         |
|  | 119             | 110             | 9               | 8.2%          |
| <b>PPO (ComEd Only)</b>                        |                 |                 |                 |               |
| Small Commercial & Industrial                  | 59              | 55              | 4               | 7.3%          |
| Large Commercial & Industrial                  | 72              | 76              | (4)             | (5.3%)        |
| Public Authorities & Electric Railroads        | 28              | 17              | 11              | 64.7%         |
|  | 159             | 148             | 11              | 7.4%          |
| <b>Total Unbundled Revenues</b>                | <b>278</b>      | <b>258</b>      | <b>20</b>       | <b>7.8%</b>   |
| <b>Total Electric Retail Revenues</b>          | <b>2,085</b>    | <b>2,253</b>    | <b>(168)</b>    | <b>(7.5%)</b> |
| <b>Wholesale and Miscellaneous Revenue (3)</b> | <b>127</b>      | <b>139</b>      | <b>(12)</b>     | <b>(8.6%)</b> |
| <b>Total Electric Revenue</b>                  | <b>\$ 2,212</b> | <b>\$ 2,392</b> | <b>\$ (180)</b> | <b>(7.5%)</b> |

- (1) Bundled revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy. PECO's tariffed rates also include a competitive transition charge (CTC).
- (2) Unbundled revenue reflects revenue from customers electing to receive electric generation service from an alternative energy supplier or ComEd's PPO. Revenue from customers choosing an alternative energy supplier includes a distribution charge and a CTC. Revenue from customers choosing ComEd's PPO includes an energy charge at market rates, transmission and distribution charges and a CTC. Transmission charges received from alternative energy suppliers are included in wholesale and miscellaneous revenue.
- (3) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

The differences in electric retail revenues for the three months ended June 30, 2003 as compared to the same period in 2002 were attributable to the following:

|                                | Variance        |
|--------------------------------|-----------------|
| Weather                        | \$ (129)        |
| Customer choice                | (46)            |
| Volume                         | 18              |
| Rate changes                   | (8)             |
| Other effects                  | (3)             |
| <b>Electric retail revenue</b> | <b>\$ (168)</b> |

- o Weather. The demand for electricity is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. The weather impact for the three months ended June 30, 2003 was unfavorable compared to the same period in 2002 as a result of cooler spring weather in 2003. Cooling degree-days in the ComEd and PECO service territories

were 63% lower and 40% lower, respectively, in 2003 as compared to 2002. Heating degree-days in the ComEd and PECO service territories were 1% lower and 38% higher, respectively, in 2003 as compared to 2002.

- o Customer Choice. All ComEd and PECO customers have the choice to purchase energy from alternative suppliers. This affects revenues from the sale of energy but not revenue from the delivery of electricity since ComEd and PECO continue to deliver electricity that is purchased from alternative suppliers. For the three months ended June 30, 2003, 15% of energy delivered to Energy Delivery's customers was provided by alternative electric suppliers. The decrease in electric retail revenues includes a decrease in revenues of \$38 million from customers in Illinois electing to purchase energy from an ARES or ComEd's PPO, and a decrease in revenues of \$8 million from customers in Pennsylvania selecting an alternative electric generation supplier. During the second quarter of 2003, approximately 2,500 customers temporarily returned to ComEd's PPO as a result of an ARES no longer providing service in Illinois.

The Pennsylvania Utility Commission's (PUC) Final Electric Restructuring Order established market share thresholds (MST) to promote competition. The MST requirements provide that if, as of January 1, 2003, less than 50% of residential and commercial customers have chosen an alternative electric generation supplier, the number of customers sufficient to meet the MST shall be randomly selected and assigned to an alternative electric generation supplier through a PUC determined process. On January 1, 2003, the number of customers choosing an alternative electric generation supplier did not meet the MST. In January 2003, PECO submitted to the PUC an MST plan to meet the 50% threshold requirement for its commercial customers, which was approved by the PUC in February 2003. As of March 31, 2003, an auction had been completed for the commercial customers. In May 2003, the customer enrollment phase was completed and customers that did not choose to opt out of the program were transferred to the alternative electric generation suppliers. In February 2003, PECO filed a residential customer MST plan, and on May 1, 2003, the PUC approved the plan. The approved plan provides for a two-step process with a total of up to 400,000 residential customers being assigned to winning alternative electric generation supplier bidders: up to 100,000 in July 2003, and another 300,000 in December 2003. The auction for the first phase of the residential program received no supplier bids. Therefore, according to the MST plan requirements, 75% of those customers are required to be added to the auction for the second phase of the residential program for a total of 375,000 customers. The auction for the second phase of the residential customer MST plan is scheduled for September 2003 and the selected customers would be transferred effective December 2003. Any customer transferred would have the right to return to PECO at any time. PECO does not expect the transfer of customers pursuant to the MST plan to have a material impact on its results of operations, financial position or cash flows.

- o Volume. Revenues from higher delivery sales, exclusive of the effect of weather, increased \$25 million at ComEd due to an increased number of customers and increased usage per customer, primarily residential and ComEd's PPO. Revenues from delivery sales, exclusive of the effect of weather, decreased \$7 million at PECO due to lower usage in the residential and large commercial and industrial customer classes, partially offset by an increase in usage by small commercial and industrial customers.
- o Rate Changes. The decrease in revenues attributable to rate changes reflects decreased wholesale market prices which decreased energy revenue received under ComEd's PPO by

\$48 million. This was partially offset by the collection of \$40 million in additional CTC's in 2003 by ComEd due to an increase in sales to customers choosing an alternative energy supplier (ARES) or the ComEd PPO and an increase in CTC rates due to lower wholesale market price of electricity, net of increased mitigation factors.

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

|   | Three Months Ended June 30, |        | Variance | % Change |
|---|-----------------------------|--------|----------|----------|
|   | 2003                        | 2002   |          |          |
| Deliveries in million cubic feet (mmcf) | 15,001                      | 14,286 | 715      | 5.0%     |
| Revenue                                 | \$ 110                      | \$ 84  | \$ 26    | 31.0%    |

The changes in gas revenue for the three months ended June 30, 2003 as compared to the same period in 2002, were as follows:

|              | Variance |
|--------------|----------|
| Weather      | \$ 14    |
| Rate changes | 10       |
| Volume       | 2        |
| Gas revenue  | \$ 26    |

- o Weather. The demand for gas is impacted by weather conditions. Very cold weather in non-summer months is referred to as "favorable weather conditions," because these weather conditions result in increased sales of gas. Conversely, mild weather reduces demand. The weather impact was favorable compared to the prior year as a result of cooler spring weather. Heating degree-days increased 38% in PECO's service territory for the three months ended June 30, 2003 compared to the same period in 2002.
- o Rate Changes. The favorable variance in rate changes is attributable to a 15% increase and a 7% increase in the purchased gas adjustment by the PUC effective March 1, 2003, and June 1, 2003, respectively. The average rate per million cubic feet for the three months ended June 30, 2003 was 22% higher than the rate in the same period in 2002. PECO's gas rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.
- o Volume. Exclusive of weather impacts, delivery volume was consistent in the three months ended June 30, 2003 compared to the same period in 2002 with increased retail sales partially offset by lower transportation volumes. Deliveries to customers, excluding transportation and the effects of weather, increased 4% in the three months ended June 30, 2003 compared to the same period in 2002.

Results of Operations - Generation

|  | Three Months Ended June 30, |          | Variance | % Change |
|--|-----------------------------|----------|----------|----------|
|  | 2003                        | 2002     |          |          |
| Operating revenues                             | \$ 1,886                    | \$ 1,559 | \$ 327   | 21.0%    |
| Revenue, net of purchased power & fuel expense | 738                         | 630      | 108      | 17.1%    |
| Operating income                               | 201                         | 113      | 88       | 77.9%    |
| Income before income taxes                     | 233                         | 135      | 98       | 72.6%    |
| Net income                                     | 142                         | 84       | 58       | 69.0%    |

The changes in Generation's revenue, net of purchased power and fuel expense, for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o increased market sales of \$385 million primarily attributable to regional demand and price increases, partially offset by increased purchased power of \$95 million and increased fuel expense of \$124 million,
- o increases of \$31 million for generation from plants acquired during 2002 resulting in higher market sales,
- o unfavorable weather conditions in the ComEd and PECO service territories in 2003 resulted in a net volume decrease offset by overall price increases of \$57 million,
- o increased revenue from ComEd of \$16 million associated with the adoption of SFAS No. 143, which was not included in revenue in 2002,
- o mark-to-market gains on hedging activities of \$32 million in 2003 compared to \$4 million in 2002, and
- o additional nuclear fuel amortization of \$10 million resulting from under performing fuel at the Quad Cities Unit 1.

The changes in operating income, other than changes in revenue net of purchased power and fuel expense, for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o higher costs of \$8 million for employee medical, pension and other employee payroll and benefit costs in 2003,
- o increased operating and maintenance (O&M) costs of \$8 million due to asset acquisitions made after the second quarter of 2002 and including a \$5 million impairment charge recorded in 2003 related to Mystic Station Units 4, 5, and 6,
- o reduced refueling outage costs of \$21 million, including \$17 million at one of Generation's co-owned facilities, resulting from fewer refueling outage days in 2003,
- o additional depreciation of \$4 million due to capital additions placed in service and plant acquisitions made after the second quarter of 2002 and \$7 million related to plant acquisitions made after the second quarter of 2002, partially offset by \$3 million of lower depreciation due to life extensions of asset additions in 2002, and
- o accretion expense of \$43 million recognized in 2003 to accrete the asset retirement obligation established at the adoption of SFAS No. 143, partially offset by the elimination of decommissioning expense of \$31 million, also as a result of the adoption of SFAS No. 143.

The changes in income before income taxes for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o increased decommissioning trust investment income of \$15 million, which is almost entirely offset by accretion expense recorded in O&M,
- o increased equity in earnings of unconsolidated affiliates of \$9 million, and
- o increased interest expense of \$9 million primarily due to reduced capitalized interest in 2003 in addition to interest incurred on the note payable to Sithe.

Generation's effective income tax rate was 39.2% for the three months ended June 30, 2003 compared to 37.7% for the same period in 2002. This increase was primarily attributable to an increase in taxes related to the nuclear decommissioning trust funds.

Generation Operating Statistics

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

| Sales (in GWhs)                           | Three Months Ended June 30, |               | Variance     | % Change    |
|---|-----------------------------|---------------|--------------|-------------|
|   | 2003                        | 2002          |              |             |
| Energy Delivery and Exelon Energy Company | 26,869                      | 29,649        | (2,780)      | (9.4%)      |
| Market Sales                              | 27,449                      | 20,589        | 6,860        | 33.3%       |
| <b>Total Sales</b>                        | <b>54,318</b>               | <b>50,238</b> | <b>4,080</b> | <b>8.1%</b> |

| Supply of Sales (in GWhs)             | Three Months Ended June 30, |               | Variance     | % Change    |
|---------------------------------------|-----------------------------|---------------|--------------|-------------|
|                                       | 2003                        | 2002          |              |             |
| Nuclear Generation (1)                | 29,619                      | 28,776        | 843          | 2.9%        |
| Purchases - non-trading portfolio (2) | 19,344                      | 17,978        | 1,366        | 7.6%        |
| Fossil and Hydro Generation           | 5,355                       | 3,484         | 1,871        | 53.7%       |
| <b>Total Supply</b>                   | <b>54,318</b>               | <b>50,238</b> | <b>4,080</b> | <b>8.1%</b> |

(1) Excluding AmerGen.

(2) Including purchased power agreements with AmerGen.

Trading volume of 7,919 GWhs and 8,566 GWhs for the three months ended June 30, 2003 and 2002, respectively, is not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2003, which are set by Exelon's Risk Management Committee and approved by the Board of Directors.

Generation's average margin and other operating data for the three months ended June 30, 2003 and 2002 were as follows:

| (\$/MWh)  | Three Months Ended June 30, |          | % Change |
|---|-----------------------------|----------|----------|
|   | 2003                        | 2002     |          |
| Average Revenue   |                             |          |          |
| Energy Delivery and Exelon Energy Company                 | \$ 32.67                    | \$ 32.06 | 1.9%     |
| Market Sales  | 34.98                       | 30.69    | 14.0%    |
| Total - excluding the trading portfolio                   | 33.83                       | 31.50    | 7.4%     |
| Average Supply Cost (1) - excluding the trading portfolio | \$ 20.71                    | \$ 18.79 | 10.2%    |
| Average Margin - excluding the trading portfolio          | \$ 13.12                    | \$ 12.71 | 3.2%     |

(1) Average supply cost includes purchased power and fuel costs.

|   | Three Months Ended June 30, |          |
|---|-----------------------------|----------|
|   | 2003                        | 2002     |
| Nuclear fleet capacity factor (1)                             | 94.0%                       | 92.1%    |
| Nuclear fleet production cost per MWh (1)                     | \$ 12.08                    | \$ 12.54 |
| Average purchased power cost for wholesale operations per MWh | \$ 43.15                    | \$ 39.96 |

(1) Including AmerGen and excluding Salem.

The factors below contributed to the overall increase in Generation's average margin for the three months ended June 30, 2003 as compared to the same period in 2002.

Generation's average revenue per MWh was affected by:

- o increased weighted average on and off-peak prices per MWh for supply agreements with ComEd,
- o higher prices per MWh on sales under supply agreements with PECO, and
- o higher market prices.

Generation's supply mix changed as a result of:

- o increased nuclear generation due to a lower number of refueling and unplanned outages during 2003 compared to 2002,
- o increased fossil generation due to the effect of the Sithe New England (now known as Exelon New England) plants acquired in November 2002, which in total account for an increase of 1,498 GWs, and
- o increased quantity of purchased power to service greater than anticipated customer loads outside of the Energy Delivery service areas.

Higher nuclear capacity factors and decreased nuclear production costs are primarily due to 20 fewer planned refueling outage days, resulting in a \$4 million decrease in outage costs, in the three months ended June 30, 2003 as compared to the same period in 2002. Additionally, the three months ended June 30, 2003 included nine unplanned outages compared to eight unplanned outages during the three months ended June 30, 2002.

Generation's financial results are greatly dependent on the performance of its nuclear units, including Generation's ability to maintain stable cost levels and high nuclear capacity

factors. Problems that may occur at nuclear facilities that result in increased costs include accelerated replacement of suspect fuel assemblies, generation reductions to make repairs and mid-cycle outages. For example, in the second quarter of 2003, the Quad Cities Unit 1 required a significant repair and is unable to operate above an 85% capacity factor until the Nuclear Regulatory Commission (NRC) inspects and approves the maintenance work. Although this individual matter did not result in a significant decrease in operating income, this type of reduction in operational capacity can adversely affect Generation's financial results. Generation anticipates NRC approval of the maintenance work and to return the unit to its normal operating capacity in the near future.

Results of Operations - Enterprises

|                                   | Three Months Ended June 30, |        | Variance | % Change |
|-----------------------------------|-----------------------------|--------|----------|----------|
|                                   | 2003                        | 2002   |          |          |
| Operating revenues                | \$ 443                      | \$ 476 | \$ (33)  | (6.9%)   |
| Operating loss                    | (57)                        | (15)   | (42)     | n.m.     |
| Income (loss) before income taxes | (95)                        | 142    | (237)    | (166.9%) |
| Net income (loss)                 | (61)                        | 83     | (144)    | (173.5%) |

n.m. - not meaningful

The changes in Enterprises' operating loss for the three months ended June 30, 2003 compared to the same period in 2002, included the following:

- o an impairment charge of \$47 million before income taxes related to the goodwill of InfraSource, Inc. The applicable assets and liabilities of InfraSource, Inc. were classified as held for sale during the second quarter of 2003,
- o lower operating income at InfraSource, Inc. of \$12 million primarily resulting from a decrease in the electric line of business,
- o higher operating income at Exelon Energy Company of \$9 million resulting from lower operating expense from the discontinuance of retail sales in the PJM region including accelerated depreciation of assets of \$7 million and general and administrative costs of \$2 million in 2002,
- o higher operating income at Exelon Thermal of \$3 million resulting from lower production costs, and
- o reductions in general and administrative expenses of \$6 million.

The changes in income (loss) before income taxes for the three months ended June 30, 2003 compared to the same period in 2002, include the following additional impacts:

- o a pre-tax gain of \$198 million recorded on the AT&T Wireless sale in 2002,
- o an impairment charge in 2003 of energy-related investments of \$22 million and communications investments of \$13 million due to an other than temporary decline in value compared to an impairment charge in 2002 of communications investments of \$27 million, energy related investments of \$9 million and a net impairment of other assets of \$4 million, and
- o lower equity in earnings of unconsolidated affiliates of \$3 million resulting from lower earnings at a communications joint venture.



The effective income tax rate was 35.8% for the three months ended June 30, 2003, compared to 41.5% for the same period in 2002. This decrease in the effective tax rate was attributable to lower effective income tax rates on the impairments.

#### Six Months Ended June 30, 2003 and Six Months Ended June 30, 2002

##### Net Income and Earnings Per Share

Exelon's net income for the six months ended June 30, 2003 increased \$241 million or 49%, compared to the same period in 2002. Diluted earnings per common share on the same basis increased \$0.72 per share, or 47%. Net income for the six months ended June 30, 2003 reflects \$112 million of income for the cumulative effect of a change in accounting principle as a result of the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting (SFAS) No. 143, "Asset Retirement Obligations" (SFAS No. 143), while net income for the six months ended June 30, 2002 reflects a \$230 million charge for the cumulative effect of a change in accounting principle, reflecting goodwill impairment upon the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further information regarding the adoptions of SFAS No. 143 and SFAS No. 142.

Income Before Cumulative Effect of Changes in Accounting Principles for the six months ended June 30, 2003 decreased \$101 million, or 14%, compared to the same period in 2002. Diluted earnings per common share on the same basis decreased \$0.33 per share, or 15%. The decrease in income before cumulative effect of changes in accounting principles reflects an impairment of an investment in Sithe held by Generation in the first quarter of 2003 and a goodwill impairment charge recorded at the InfraSource, Inc. reporting unit within Enterprises during the second quarter 2003. Also, Energy Delivery recorded a one-time charge in the first quarter of 2003 as the result of an agreement (see Note 4 of the Condensed Combined Notes to Consolidated Financial Statements) and a gain was recorded in the second quarter of 2002 due to the sale of an investment in AT&T Wireless held by Enterprises. These items were partially offset by increased recoveries of competitive transition charges (CTCs), increased market sales and mark-to-market activity at Generation, reduced depreciation expense resulting from lower depreciation rates at Energy Delivery and decreased interest expense at Energy Delivery due to refinancing of outstanding debt at lower interest rates.

##### Results of Operations by Business Segment

The comparisons presented under this heading are comparisons of operating results and other statistical information for the six months ended June 30, 2003 to operating results and other statistical information for the same period in 2002. These results reflect intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Net Income (Loss) Before Cumulative Effect of Changes in Accounting Principles  
by Business Segment

|                 | Six Months Ended June 30, |               | Variance        | % Change       |
|-----------------|---------------------------|---------------|-----------------|----------------|
|                 | 2003                      | 2002          |                 |                |
| Energy Delivery | \$ 616                    | \$ 538        | \$ 78           | 14.5%          |
| Generation      | 89                        | 150           | (61)            | (40.7%)        |
| Enterprises     | (78)                      | 55            | (133)           | n.m.           |
| Corporate       | (6)                       | (21)          | 15              | (71.4%)        |
| <b>Total</b>    | <b>\$ 621</b>             | <b>\$ 722</b> | <b>\$ (101)</b> | <b>(14.0%)</b> |

n.m. - not meaningful

Net Income (Loss) by Business Segment

|                 | Six Months Ended June 30, |               | Variance      | % Change     |
|-----------------|---------------------------|---------------|---------------|--------------|
|                 | 2003                      | 2002          |               |              |
| Energy Delivery | \$ 621                    | \$ 538        | \$ 83         | 15.4%        |
| Generation      | 197                       | 163           | 34            | 20.9%        |
| Enterprises     | (79)                      | (188)         | 109           | (58.0%)      |
| Corporate       | (6)                       | (21)          | 15            | (71.4%)      |
| <b>Total</b>    | <b>\$ 733</b>             | <b>\$ 492</b> | <b>\$ 241</b> | <b>49.0%</b> |

Results of Operations - Energy Delivery

| Energy Delivery  | Six Months Ended June 30, |          | Variance | % Change |
|--|---------------------------|----------|----------|----------|
|  | 2003                      | 2002     |          |          |
| Operating revenues   | \$ 4,964                  | \$ 4,811 | \$ 153   | 3.2%     |
| Revenue, net of purchased power & fuel expense                                       | 2,789                     | 2,777    | 12       | 0.4%     |
| Operating income   | 1,360                     | 1,296    | 64       | 4.9%     |
| Income before income taxes and cumulative effect of a change in accounting principle | 998                       | 864      | 134      | 15.5%    |
| Income before cumulative effect of a change in accounting principle                  | 616                       | 538      | 78       | 14.5%    |
| Net income   | 621                       | 538      | 83       | 15.4%    |

The changes in Energy Delivery's revenue, net of purchased power and fuel expense, for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o changes in customer rates resulting in a \$75 million increase,
- o increases in weather normalized volumes of \$34 million as a result of increases in the number of customers and additional average usage per customer, primarily residential customers at ComEd, and small and large commercial and industrial customers at PECO,
- o net favorable weather impacts of \$12 million, primarily the results of colder winter weather, partially offset by cooler spring weather,
- o net unfavorable changes due to customer choice of \$28 million, including ComEd's customers electing to purchase energy from alternative energy suppliers or electing ComEd's PPO, under which non-residential customers can purchase power from ComEd at a market-based rate,
- o unfavorable pricing changes of \$39 million related to ComEd's PPA with Generation,

- o unfavorable variance of \$31 million under the ComEd PPA with Generation related to decommissioning collections associated with the adoption of SFAS No. 143 in 2003, which were not recorded in purchased power in 2002 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements), and
- o higher PJM ancillary charges resulted in an unfavorable variance of \$8 million.

The changes in operating income, other than changes in revenue net of purchased power and fuel expense, for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o a net one-time charge of \$41 million in 2003 at ComEd as the result of an agreement described in Note 4 of Condensed Combined Notes to Consolidated Financial Statements,
- o reduction in depreciation expense of \$48 million due to the impact of lower depreciation rates at ComEd effective July 1, 2002, partially offset by increased depreciation expense in 2003 of \$20 million due to higher plant in service balances,
- o reduction of amortization expense of \$31 million for nuclear decommissioning of retired plants at ComEd due to the adoption of SFAS No. 143 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements),
- o lower amortization of ComEd's recoverable transition costs of \$20 million in 2003,
- o a reversal of \$12 million of accrued use tax at PECO as a result of an audit settlement, and
- o additional amortization in 2003 of \$15 million at PECO related to PECO's competitive transition charge in accordance with the Pennsylvania Competitive Act.

The changes in income before income taxes and cumulative effect of a change in accounting principle for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o a reduction in interest expense primarily related to a decrease of \$45 million attributable to less outstanding debt and refinancing of existing debt at lower interest rates, and
- o the reversal in 2003 of a \$12 million reserve for a potential capital disallowance as the result of an agreement described in Note 4 of the Condensed Combined Notes to Consolidated Financial Statements.

Energy Delivery's effective income tax rate was 38.3% for the six months ended June 30, 2003, compared to 37.7% for the same period in 2002.

ComEd recorded a gain due to the adoption of SFAS No. 143 as a cumulative effect of a change in accounting principle of \$5 million, net of income taxes, in the first quarter of 2003. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of these effects.

Energy Delivery Operating Statistics and Revenue Detail

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

| Retail Deliveries - (GWhs)              | Six Months Ended June 30, |               | Variance       | % Change      |
|---|---------------------------|---------------|----------------|---------------|
|   | 2003                      | 2002          |                |               |
| <b>Bundled Deliveries (1)</b>           |                           |               |                |               |
| Residential                             | 17,438                    | 16,441        | 997            | 6.1%          |
| Small Commercial & Industrial           | 14,053                    | 14,687        | (634)          | (4.3%)        |
| Large Commercial & Industrial           | 10,344                    | 11,357        | (1,013)        | (8.9%)        |
| Public Authorities & Electric Railroads | 3,224                     | 3,879         | (655)          | (16.9%)       |
| <b>Total Bundled Deliveries</b>         | <b>45,059</b>             | <b>46,364</b> | <b>(1,305)</b> | <b>(2.8%)</b> |
| <b>Unbundled Deliveries (2)</b>         |                           |               |                |               |
| Alternative Energy Suppliers            |                           |               |                |               |
| Residential                             | 450                       | 1,348         | (898)          | (66.6%)       |
| Small Commercial & Industrial           | 3,131                     | 2,280         | 851            | 37.3%         |
| Large Commercial & Industrial           | 4,362                     | 3,124         | 1,238          | 39.6%         |
| Public Authorities & Electric Railroads | 529                       | 319           | 210            | 65.8%         |
|   | <b>8,472</b>              | <b>7,071</b>  | <b>1,401</b>   | <b>19.8%</b>  |
| PPO (ComEd Only)                        |                           |               |                |               |
| Small Commercial & Industrial           | 1,662                     | 1,602         | 60             | 3.7%          |
| Large Commercial & Industrial           | 2,750                     | 2,703         | 47             | 1.7%          |
| Public Authorities & Electric Railroads | 1,069                     | 517           | 552            | 106.8%        |
|   | <b>5,481</b>              | <b>4,822</b>  | <b>659</b>     | <b>13.7%</b>  |
| <b>Total Unbundled Deliveries</b>       | <b>13,953</b>             | <b>11,893</b> | <b>2,060</b>   | <b>17.3%</b>  |
| <b>Total Retail Deliveries</b>          | <b>59,012</b>             | <b>58,257</b> | <b>755</b>     | <b>1.3%</b>   |

(1) Bundled service reflects deliveries to customers taking electric generation service under tariffed rates.

(2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier or ComEd's PPO.

Six Months Ended June 30,

| Electric Revenue                               | 2003            | 2002            | Variance     | % Change      |
|--|-----------------|-----------------|--------------|---------------|
| <b>Bundled Revenues (1)</b>                    |                 |                 |              |               |
| Residential                                    | \$ 1,673        | \$ 1,563        | \$ 110       | 7.0%          |
| Small Commercial & Industrial                  | 1,177           | 1,249           | (72)         | (5.8%)        |
| Large Commercial & Industrial                  | 692             | 750             | (58)         | (7.7%)        |
| Public Authorities & Electric Railroads        | 207             | 230             | (23)         | (10.0%)       |
| <b>Total Bundled Revenues</b>                  | <b>3,749</b>    | <b>3,792</b>    | <b>(43)</b>  | <b>(1.1%)</b> |
| <b>Unbundled Revenues (2)</b>                  |                 |                 |              |               |
| <b>Alternative Energy Suppliers</b>            |                 |                 |              |               |
| Residential                                    | 31              | 96              | (65)         | (67.7%)       |
| Small Commercial & Industrial                  | 99              | 48              | 51           | 106.3%        |
| Large Commercial & Industrial                  | 103             | 45              | 58           | 128.9%        |
| Public Authorities & Electric Railroads        | 17              | 7               | 10           | 142.9%        |
|  | 250             | 196             | 54           | 27.6%         |
| <b>PPO (ComEd Only)</b>                        |                 |                 |              |               |
| Small Commercial & Industrial                  | 109             | 98              | 11           | 11.2%         |
| Large Commercial & Industrial                  | 144             | 140             | 4            | 2.9%          |
| Public Authorities & Electric Railroads        | 55              | 29              | 26           | 89.7%         |
|  | 308             | 267             | 41           | 15.4%         |
| <b>Total Unbundled Revenues</b>                | <b>558</b>      | <b>463</b>      | <b>95</b>    | <b>20.5%</b>  |
| <b>Total Electric Retail Revenues</b>          | <b>4,307</b>    | <b>4,255</b>    | <b>52</b>    | <b>1.2%</b>   |
| <b>Wholesale and Miscellaneous Revenue (3)</b> | <b>258</b>      | <b>263</b>      | <b>(5)</b>   | <b>(1.9%)</b> |
| <b>Total Electric Revenue</b>                  | <b>\$ 4,565</b> | <b>\$ 4,518</b> | <b>\$ 47</b> | <b>1.0%</b>   |

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

The differences in electric retail revenues for the six months ended June 30, 2003 as compared to the same period in 2002 were attributable to the following:

|                                | Variance     |
|--------------------------------|--------------|
| Rate changes                   | 75           |
| Volume                         | 68           |
| Customer choice                | (66)         |
| Weather                        | (28)         |
| Other effects                  | 3            |
| <b>Electric retail revenue</b> | <b>\$ 52</b> |

o Rate Changes. The increase in revenues attributable to rate changes reflects the collection of additional CTC's in 2003 by ComEd of \$146 million due to an increase in sales to customers choosing an ARES or the ComEd PPO and an increase in CTC rates due to lower wholesale market price of electricity, net of increased mitigation factors. Lower wholesale market prices decreased energy revenue received under ComEd's PPO by \$71 million.

- o Volume. Revenues from higher delivery volume, exclusive of the effect of weather, increased due to an increased number of customers and increased usage per customer, primarily in the residential customer class for ComEd and in the small and large commercial and industrial customer classes for PECO.
- o Customer Choice. For the six months ended June 30, 2003, 14% of energy delivered to Energy Delivery's customers was provided by alternative electric suppliers. The decrease in electric retail revenues includes a decrease in revenues of \$77 million from customers in Illinois electing to purchase energy from an ARES or ComEd's PPO, partially offset by an increase in revenues of \$11 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier.
- o Weather. The weather impact for the six months ended June 30, 2003 was unfavorable compared to the same period in 2002 as a result of cooler spring weather in 2003, partially offset by colder winter weather. Cooling degree-days in the ComEd and PECO service territories were 63% lower and 40% lower, respectively, in 2003 as compared to 2002. Heating degree-days in the ComEd and PECO service territories were 13% higher and 34% higher, respectively, in 2003 as compared to 2002.

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

|   | Six Months Ended June 30, |        | Variance | % Change |
|---|---------------------------|--------|----------|----------|
|   | 2003                      | 2002   |          |          |
| Deliveries in million cubic feet (mmcf) | 54,627                    | 45,643 | 8,984    | 19.7%    |
| Revenue                                 | \$ 399                    | \$ 293 | \$ 106   | 36.2%    |

The changes in gas revenue for the six months ended June 30, 2003 as compared to the same period in 2002, were as follows:

|              | Variance |
|--------------|----------|
| Weather      | \$ 73    |
| Volume       | 17       |
| Rate changes | 13       |
| Other        | 3        |
| Gas revenue  | \$ 106   |

- o Weather. The weather impact was favorable compared to the prior year as a result of colder winter weather. Heating degree-days increased 34% in PECO's service territory for the six months ended June 30, 2003 compared to the same period in 2002.
- o Volume. Exclusive of weather impacts, higher delivery volume increased revenue in the six months ended June 30, 2003 compared to the same period in 2002 resulting from increased retail sales partially offset by lower transportation volumes. Deliveries to customers, excluding transportation and the effects of weather, increased 6% in the six months ended June 30, 2003 compared to the same period in 2002.

- o Rate Changes. The favorable variance in rate changes is attributable to a 15% increase and a 7% increase in the purchased gas adjustment by the PUC effective March 1, 2003 and June 1, 2003, respectively. The average rate per million cubic feet for the six months ended June 30, 2003 was 13% higher than the rate in the same 2002 period. PECO's gas rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.

Results of Operations - Generation

|  | Six Months Ended June 30, |          | Variance | % Change |
|--|---------------------------|----------|----------|----------|
|  | 2003                      | 2002     |          |          |
| Operating revenues   | \$ 3,765                  | \$ 3,020 | \$ 745   | 24.7%    |
| Revenue, net of purchased power & fuel expense                                       | 1,417                     | 1,264    | 153      | 12.1%    |
| Operating income   | 295                       | 202      | 93       | 46.0%    |
| Income before income taxes and cumulative effect of changes in accounting principles | 160                       | 246      | (86)     | (35.0%)  |
| Income before cumulative effect of changes in accounting principles                  | 89                        | 150      | (61)     | (40.7%)  |
| Net income   | 197                       | 163      | 34       | 20.9%    |

The changes in Generation's revenue, net of purchased power and fuel expense, for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o increased demand due to customers returning to PECO from alternative energy suppliers and overall favorable weather conditions in the ComEd and PECO service territories in 2003 resulting in net volume and price increases of \$22 million,
- o increases of \$63 million for generation from plants acquired during 2002 resulting in higher market sales,
- o increased revenue from ComEd of \$31 million associated with the adoption of SFAS No. 143, which was not included in revenue in 2002,
- o mark-to-market gains on hedging activities of \$1 million in 2003 compared to \$10 million in 2002, and
- o additional nuclear fuel amortization of \$16 million in 2003 resulting from under performing fuel at the Quad Cities Unit 1.

The changes in operating income, other than changes in revenue net of purchased power and fuel expense, for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o increased accretion expense of \$103 million due to the adoption of SFAS No. 143, partially offset by reduced decommissioning expense of \$64 million,
- o higher costs of \$36 million for employee medical, pension and other employee payroll and benefit costs in 2003, partially offset by a one-time executive severance charge of \$19 million in 2002,
- o increased O&M costs of \$38 million due to asset acquisitions made during 2002 and a \$5 million impairment charge recorded in 2003 related to Mystic Station Units 4, 5, and 6,
- o reduced refueling outage costs of \$53 million, including \$17 million at one of Generation's co-owned facilities, resulting from fewer refueling outage days in 2003,

- o additional depreciation of \$10 million due to capital additions placed in service and plant acquisitions made during 2002 and \$16 million due to plant acquisitions made after the second quarter of 2002, partially offset by a \$10 million reduction to depreciation expense due to life extensions made in 2002, and
- o reduction in worker's compensation expense of \$8 million, compared to 2002.

The changes in income before income taxes and cumulative effect of changes in accounting principles for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o a pre-tax impairment charge of \$200 million related to Generation's equity investment in Sithe,
- o increased decommissioning trust investment income of \$33 million, which is almost entirely offset with accretion expense recorded in O&M,
- o increased equity in earnings of unconsolidated affiliates of \$5 million, and
- o increased interest expense of \$10 million primarily due to reduced capitalized interest in 2003 in addition to interest incurred on the note payable to Sithe.

Generation's effective income tax rate was 44.2% for the six months ended June 30, 2003 compared to 39.0% for the same period in 2002. This increase was primarily attributable to the impact of the impairment of Generation's investment in Sithe, as well as an increase in taxes related to the nuclear decommissioning trust funds.

Cumulative effect of changes in accounting principles recorded in the six months ended June 30, 2003 and 2002 included income of \$108 million, net of income taxes, recorded in the first quarter of 2003 related to the adoption of SFAS No. 143 and income of \$13 million, net of income taxes, recorded in 2002 related to the adoption of SFAS No. 141, "Business Combinations" (SFAS No. 141) and SFAS No. 142. See Note 2 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of these effects.



Generation Operating Statistics

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

| Sales (in GWhs)                           | Six Months Ended June 30, |               | Variance      | % Change     |
|---|---------------------------|---------------|---------------|--------------|
|   | 2003                      | 2002          |               |              |
| Energy Delivery and Exelon Energy Company | 57,463                    | 58,649        | (1,186)       | (2.0%)       |
| Market Sales                              | 51,264                    | 39,913        | 11,351        | 28.4%        |
| <b>Total Sales</b>                        | <b>108,727</b>            | <b>98,562</b> | <b>10,165</b> | <b>10.3%</b> |

| Supply of Sales (in GWhs)             | Six Months Ended June 30, |               | Variance      | % Change     |
|---------------------------------------|---------------------------|---------------|---------------|--------------|
|                                       | 2003                      | 2002          |               |              |
| Nuclear Generation (1)                | 58,949                    | 56,309        | 2,640         | 4.7%         |
| Purchases - non-trading portfolio (2) | 39,373                    | 36,071        | 3,302         | 9.2%         |
| Fossil and Hydro Generation           | 10,405                    | 6,182         | 4,223         | 68.3%        |
| <b>Total Supply</b>                   | <b>108,727</b>            | <b>98,562</b> | <b>10,165</b> | <b>10.3%</b> |

(1) Excluding AmerGen.

(2) Including purchased power agreements with AmerGen.

Trading volume of 17,446 GWhs and 22,805 GWhs for the six months ended June 30, 2003 and 2002, respectively, is not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2003, which are set by the Risk Management Committee and approved by the Board of Directors.

Generation's average margin and other operating data for the six months ended June 30, 2003 and 2002 were as follows:

| (\$/MWh)  | Six Months Ended June 30, |          | % Change |
|---|---------------------------|----------|----------|
|   | 2003                      | 2002     |          |
| Average Revenue   |                           |          |          |
| Energy Delivery and Exelon Energy Company                 | \$ 32.06                  | \$ 31.35 | 2.3%     |
| Market Sales  | 35.94                     | 29.44    | 22.1%    |
| Total - excluding the trading portfolio                   | 33.89                     | 30.58    | 10.8%    |
| Average Supply Cost (1) - excluding the trading portfolio | \$ 20.58                  | \$ 17.78 | 15.7%    |
| Average Margin - excluding the trading portfolio          | \$ 13.31                  | \$ 12.80 | 4.0%     |

(1) Average supply cost includes purchased power and fuel costs.

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2003                      | 2002     |
| Nuclear fleet capacity factor (1)                             | 94.2%                     | 91.2%    |
| Nuclear fleet production cost per MWh (1)                     | \$ 12.40                  | \$ 13.38 |
| Average purchased power cost for wholesale operations per MWh | \$ 41.71                  | \$ 36.76 |

(1) Including AmerGen and excluding Salem.

The factors below contributed to the overall increase in Generation's average margin for the six months ended June 30, 2003 as compared to the same period in 2002.

Generation's average revenue per MWh was affected by:

- o increased weighted average on and off-peak prices per MWh for supply agreements with ComEd,
- o higher prices per MWh on sales under supply agreements with PECO, and
- o higher market prices.

Generation's supply mix changed as a result of:

- o increased nuclear generation due to a lower number of refueling and unplanned outages during 2003 compared to 2002,
- o increased fossil generation due to the effect of the acquisition of two generating plants in Texas in April 2002, and the Sithe New England (currently known as Exelon New England) plants acquired in November 2002, which in total account for an increase of 2,995 GWs, and
- o increased quantity of purchased power at higher prices.

Higher nuclear capacity factors and decreased nuclear production costs are primarily due to 50 fewer planned refueling outage days, resulting in a \$36 million decrease in outage costs, in the six months ended June 30, 2003 as compared to the same period in 2002. Additionally, the six months ended June 30, 2003 included 11 unplanned outages compared to 13 unplanned outages during the six months ended June 30, 2002.

Results of Operations - Enterprises

|   | Six Months Ended June 30, |        | Variance | % Change |
|---|---------------------------|--------|----------|----------|
|   | 2003                      | 2002   |          |          |
| Operating revenues  | \$ 1,022                  | \$ 966 | \$ 56    | 5.8%     |
| Operating loss  | (84)                      | (50)   | (34)     | 68.0%    |
| Income (loss) before income taxes and cumulative effect of changes in accounting principles | (125)                     | 95     | (220)    | n.m.     |
| Income (loss) before cumulative effect of changes in accounting principles                  | (78)                      | 55     | (133)    | n.m.     |
| Net loss  | (79)                      | (188)  | 109      | (58.0%)  |

n.m. - not meaningful

The changes in Enterprises' operating loss for the six months ended June 30, 2003 compared to the same period in 2002, included the following:

- o an impairment charge of \$47 million before income taxes related to the goodwill of InfraSource, Inc. The applicable assets and liabilities of InfraSource, Inc. were classified as held for sale during the second quarter of 2003,
- o lower operating income at InfraSource Inc. of \$5 million primarily resulting from a decrease in the electric line of business of \$13 million and a \$2 million decrease in metering services partially offset by lower costs of \$7 million in the telecom line of business and \$3 million from bad debt expense recorded in 2002,
- o higher operating income at Exelon Energy Company of \$6 million resulting from lower operating expense from the discontinuance of retail sales in the PJM region including 2002 costs for accelerated depreciation of \$14 million and general and administrative

costs of \$3 million. These costs were partially offset by lower gross margins of \$11 million in 2003. The lower gross margins resulted from the reversal of mark-to-market adjustments of \$11 million and additional gas supply costs of \$11 million attributable to gas purchases at high rates in the Northeast, partially offset by higher gross margins of \$8 million in the Midwest attributable to increased unit margins and higher volumes, and \$2 million favorable related to the wind-down of a contract,

- o higher operating income at Exelon Thermal of \$4 million resulting from lower production costs, and
- o reductions in general and administrative expenses of \$9 million.

The changes in income (loss) before income taxes and cumulative effect of changes in accounting principles for the six months ended June 30, 2003 compared to the same period in 2002, include the following additional impacts:

- o a pre-tax gain of \$198 million in 2002 and higher equity in earnings of unconsolidated affiliates of \$4 million in 2003 primarily as a result of the discontinuation of losses on the investment in AT&T Wireless due to the sale of the investment in the second quarter of 2002, and
- o an impairment charge in 2003 of energy-related investments of \$22 million, communications investments of \$13 million, and \$5 million of software-related investments due to an other-than-temporary decline in value, partially offset by an impairment charge in 2002 of communications investments of \$29 million, energy-related investments of \$11 million and a net impairment of other assets of \$4 million.

The effective income tax rate was 37.6% for the six months ended June 30, 2003, compared to 42.1% for the same period in 2002. This decrease in the effective tax rate was attributable to lower effective income tax rates on the impairment charges compared to the tax rate on the gain on the sale of Enterprises' AT&T Wireless investment.

The cumulative effect of a change in accounting principle recorded in the first quarter of 2003 due to the adoption of SFAS No. 143 reduced net income by \$1 million, net of income taxes. The cumulative effect of a change in accounting principle recorded in the first quarter of 2002 for the adoption of SFAS No. 142 reduced net income by \$243 million, net of income taxes (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements).

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

## General

Due to revenue needs in the states in which Exelon operates, various state income tax and fee increases have been proposed or are being contemplated. If these changes are enacted, they could increase Exelon's state income tax expense. At this time, however, Exelon cannot predict whether legislation or regulation will be introduced, the form of any legislation or regulation, whether any such legislation or regulation will be passed by the state legislatures or regulatory bodies, and, if enacted, whether any such legislation or regulation would be effective retroactively or prospectively. As a result, Exelon cannot currently estimate the effect of these potential changes in tax laws or regulation.

## LIQUIDITY AND CAPITAL RESOURCES

Exelon's businesses are capital intensive and require considerable capital resources. These capital resources are primarily provided by internally generated cash flows from Energy Delivery and Generation's operations. When necessary, Exelon obtains funds from external sources in the capital markets and through bank borrowings. Exelon's access to external financing at reasonable terms depends on Exelon's and its subsidiaries' credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Exelon no longer has access to external financing sources at reasonable terms, Exelon has access to a \$1.5 billion revolving credit facility that Exelon currently utilizes to support its commercial paper program. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Exelon primarily uses its capital resources to fund capital requirements, including construction, to invest in new and existing ventures, to repay maturing debt and to pay common stock dividends. Future acquisitions that Exelon may undertake may require external financing, which might include Exelon issuing common stock.

In the second quarter of 2003, Exelon progressed in its plans to implement its new business model referred to as The Exelon Way. The Exelon Way is focused on improving operating cash flows while meeting service and financial commitments through improved integration of operations and consolidation of support functions. Exelon is working to meet its goals of approximately \$300 million of annual cash savings beginning in 2004 and increasing the annual cash savings to \$600 million in 2006. As part of the implementation of The Exelon Way, Exelon anticipates incurring expenses associated with the rationalization of certain business functions and employee separation costs. These expenses may be significant and are expected to be incurred during the remaining half of 2003 through 2005. However, these costs cannot be reasonably estimated at this time.

## Cash Flows from Operating Activities

Cash flows provided by operations for the six months ended June 30, 2003 were \$1.3 billion compared to \$1.6 billion in the six months ended June 30, 2002. The decrease in cash flows was primarily attributable to a \$229 million decrease in working capital and the \$240 million funding of the pension benefit obligation. Energy Delivery's cash flow from operating activities primarily results from sales of electricity and gas to a stable and diverse base of retail

customers at fixed prices. Energy Delivery's future cash flows will depend upon the ability to achieve cost savings in operations and the impact of the economy, weather and customer choice on its revenues. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Energy Delivery and Enterprises. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs. Although the amounts may vary from period to period as a result of the uncertainties inherent in business, Exelon expects that Energy Delivery and Generation will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

Cash Flows used in Investing Activities

Cash flows used in investing activities for the six months ended June 30, 2003 were \$1.0 billion, compared to \$1.3 billion for the six months ended June 30, 2002. The decrease in cash flows is primarily attributable to a reduction in plant acquisition costs of \$443 million as a result of the acquisition of generating plants during the six months ended June 30, 2002, a reduction of capital expenditures of \$9 million, the receipt of liquidating damages of \$86 million from Raytheon during the six months ended June 30, 2003, partially offset by increased investments in nuclear decommissioning trust funds of \$52 million and a reduction of proceeds from the sale of investments of \$279 million primarily attributable to the sale of AT&T Wireless during the six months ended June 30, 2002. Capital expenditures by business segment for the six months ended June 30, 2003 and 2002 were as follows:

|  | Six Months Ended June 30, |                 |
|--|---------------------------|-----------------|
|  | 2003                      | 2002            |
| Energy Delivery  | \$ 487                    | \$ 495          |
| Generation   | 424                       | 475             |
| Enterprises  | 11                        | 28              |
| Corporate and other  | 11                        | 30              |
| <b>Total capital expenditures (net of liquidated damages received)</b> | <b>\$ 933</b>             | <b>\$ 1,028</b> |

Energy Delivery's capital expenditures for 2003 reflect the continuation of efforts to further improve the reliability of its distribution system. Exelon anticipates that Energy Delivery's capital expenditures will be funded by internally generated funds, borrowings, the issuance of preferred securities, or capital contributions from Exelon.

Generation's capital expenditures for 2003 reflect the construction of three Exelon New England generating facilities with projected capacity of 2,421 MWs of energy, additions to and upgrades of existing facilities (including nuclear refueling outages), and nuclear fuel. During the six months ended June 30, 2003, Generation received \$86 million of liquidated damages from Raytheon as a result of Raytheon not meeting the expected completion date and certain contractual performance criteria in connection with Raytheon's construction of Exelon New England's Mystic 8 and 9 and Fore River generating facilities. In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate of one-month LIBOR plus 2.25%. In July 2002, the loan agreement and the loan were increased to \$100 million and the maturity date was extended to July 1, 2003. As of June 30, 2003, the loan has

been fully repaid by AmerGen. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

Enterprises' capital expenditures for 2003 are primarily for additions of equipment. All of Enterprises' capital expenditures are expected to be funded by internally generated funds, capital contributions or borrowings from Exelon.

#### Cash Flows used in Financing Activities

Cash flows used in financing activities were \$284 million for the six months ended June 30, 2003 compared to \$142 million for the same period in 2002. The increase in cash flows is primarily attributable to debt and preferred securities issuances of \$2.1 billion and an increase of proceeds from the exercise of employee stock options over the same period in 2002 of \$31 million partially offset by retirements and redemptions of debt and preferred securities of \$1.9 billion, the \$210 million payment of the acquisition note payable to Sithe and increased interest rate swap settlement payments of \$41 million over the same period in 2002. See Note 9 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of Exelon's debt and preferred securities financing activities in 2003.

#### Credit Issues

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by the Exelon corporate holding company (Exelon Corporate) and by ComEd, PECO and Generation. Exelon Corporate participates, along with ComEd, PECO and Generation, in a \$1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility became effective on November 22, 2002 and includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon Corporate may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of June 30, 2003, Exelon Corporate's sublimit was \$1.0 billion, ComEd's was \$100 million, PECO's was \$400 million and the sublimit for Generation was zero. The credit facility is used principally to support the commercial paper programs of Exelon Corporate, ComEd, PECO and Generation. At June 30, 2003, Exelon's Consolidated Balance Sheet reflected \$581 million of commercial paper outstanding. For the six months ended June 30, 2003, the average interest rate on notes payable was approximately 1.38%.

The credit facility requires Exelon Corporate, ComEd, PECO and Generation to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon Corporate and Generation, revenues from Exelon New England and interest on the debt of Exelon New England's project subsidiaries. Exelon Corporate is measured at the Exelon consolidated level. At June 30, 2003, Exelon Corporate, ComEd, PECO and Generation were in compliance with the credit agreement thresholds. The following table summarizes the threshold reflected in the credit agreement that the ratio cannot be less than for the twelve-month period ended June 30, 2003:

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

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by Exelon's corporate treasurer. ComEd's subsidiary, Commonwealth Edison Company of Indiana, Inc., PECO, Generation and Exelon Business Services Company (BSC) may participate in the money pool as lenders and borrowers, and Exelon Corporate and ComEd as lenders. Contributions to and permitted borrowings from the money pool are predicated on whether the contributions and borrowings result in economic benefits to all the participants. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. During the six months ended June 30, 2003, ComEd had various loans to Generation under the money pool. The maximum amount of loans outstanding at any time during the six months ended June 30, 2003 was \$342 million. As of June 30, 2003, the outstanding loan balance was \$165 million.

Exelon Boston Generating, LLC (EBG), an indirect subsidiary of Generation, has approximately \$1.1 billion of debt outstanding under a \$1.25 billion credit facility (EBG Facility) at June 30, 2003. The EBG Facility was entered into primarily to finance the construction of the Mystic 8 and 9 and Fore River generating units. The EBG Facility requires that all of the projects achieve "Project Completion," as defined in the EBG Facility (Project Completion), by June 12, 2003. On June 11, 2003, EBG negotiated an extension of the Project Completion date to July 11, 2003. On July 3, 2003, the lenders under the EBG Facility and EBG executed a letter agreement as a result of which the lenders are precluded during the period July 11, 2003 through August 29, 2003 from exercising any remedies resulting from the failure of all of the projects to achieve Project Completion. At that time, EBG stated that it would continue to monitor the projects, assess all of its options relating to the projects, and continue discussions with the lenders. Mystic 8 and 9 are in commercial operation, although construction has not progressed to the point of Project Completion. Construction of Fore River is substantially complete and the unit is currently undergoing testing. EBG does not anticipate that the projects will achieve Project Completion by August 29, 2003. The EBG Facility is non-recourse to Exelon and Generation and an event of default under the EBG Facility does not constitute an event of default under any other debt instruments of Exelon or its subsidiaries.

As a result of Exelon's continuing evaluation of the projects and discussions with the lenders in July 2003, Exelon has commenced the process of an orderly transition out of the ownership of EBG and the projects. The transition will take place in a manner that complies with applicable regulatory requirements. For a period of time, Exelon expects to continue to provide administrative and operational services to EBG in its operation of the projects. Exelon informed the lenders of Exelon's decision to exit and that it will not provide additional funding to the projects beyond its existing contractual obligations. Exelon cannot predict the timing of the transition.

Exelon expects Generation will incur an impairment of its EBG related assets, which, in aggregate, could reach approximately \$550 million after income taxes.

The debt outstanding under the EBG Facility of approximately \$1.1 billion at June 30, 2003 is reflected in Exelon's Consolidated Balance Sheet as a current liability.

On June 13, 2003, Generation closed on a \$550 million revolving credit facility. Generation used the facility to make the first payment to Sithe relating to the \$536 million note that was used to purchase the EBG facilities. This note was restructured in June 2003 to provide for a payment of \$210 million of the principal on June 16, 2003 and payment of the remaining principal on the earlier of December 1, 2003 or change of control.

Exelon's access to the capital markets, including the commercial paper market, and its financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. None of Exelon's borrowings is subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase fees and interest charges under Exelon's \$1.5 billion credit facility and certain other credit facilities. From time to time, Exelon enters into energy commodity and other contracts that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow counterparties to certain energy commodity contracts to terminate the contracts and settle the transactions on a net present value basis.

Exelon obtained an order from the United States Securities and Exchange Commission (SEC) under PUHCA authorizing through March 31, 2004 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. As of June 30, 2003, there was \$2.3 billion of financing authority remaining under the SEC order. Exelon's request for an additional \$4 billion in financing authorization is pending with the SEC. The current order limits Exelon's short-term debt outstanding to \$3 billion of the \$4 billion total financing authority. Exelon's request that the short-term debt sub-limit restriction be eliminated is pending with the SEC. The SEC order also authorized Exelon to issue guarantees of up to \$4.5 billion outstanding at any one time. At June 30, 2003, Exelon had provided \$1.7 billion of guarantees under the SEC order. See Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations in this section for further discussion of guarantees. The SEC order requires Exelon and ComEd 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 June 30, 2003, Exelon and ComEd's common



equity ratios were 34% and 46%, respectively. Exelon and ComEd expect that they will maintain a common equity ratio of at least 30%.

Under PUHCA, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. However, the SEC order granted permission to ComEd, and to Exelon, to the extent Exelon receives dividends from ComEd paid from ComEd additional paid-in-capital, to pay up to \$500 million in dividends out of additional paid-in capital, although Exelon may not pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization. At June 30, 2003, Exelon had retained earnings of \$2.5 billion, including ComEd's retained earnings of \$767 million, PECO's retained earnings of \$455 million and Generation's undistributed earnings of \$1.1 billion. Exelon is also limited by order of the SEC under PUHCA to an aggregate investment of \$4 billion in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs). At June 30, 2003, Exelon had invested \$2.2 billion in EWGs, leaving \$1.8 billion of investment authority under the order. Exelon's request for an additional \$1.5 billion in EWG investment authorization is pending with the SEC.

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

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. Exelon's contractual obligations and commercial commitments as of June 30, 2003 were materially unchanged, other than the normal course of business, from the amounts set forth in the 2002 Form 10-K except for the following:

- o On March 3, 2003, ComEd entered into an agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service (Agreement). The Agreement addressed, among other things, issues related to ComEd's delivery services rate proceeding, market value index proceeding, the process for competitive service declarations for large-load customers and an extension of the PPA with Generation. During the second quarter of 2003, the ICC issued orders consistent with the Agreement, which is now effective.

The Agreement provides for a modification of the methodology used to determine ComEd's market value energy credit. That credit is used to determine the price for specified market-based rate offerings and the amount of the CTC that ComEd is allowed to collect from customers who select an ARES or the PPO. The credit was adjusted upwards through agreed upon "adders" which took effect in June 2003 and will have the effect of reducing ComEd's CTC charges to customers. Prior to the Agreement, all CTC charges were subject to annual mid-year adjustments based on the forward market prices for on-peak energy and historical market prices for off-peak energy. The Agreement provides that the annual market price adjustment will reflect forward market prices for energy, rather than historical, and allows customers an option to lock in current levels of CTC charges for multi-year periods during the regulatory transition period ending in 2006. These changes provide customers and suppliers greater price certainty and are expected to result in an increase in the number of customers electing to purchase energy from alternate suppliers.

The annual market price adjustments to the CTC effective in June 2002 and June 2003 had the effect of significantly increasing the CTC charge in June 2002, and subsequently significantly reducing the CTC charge in June 2003. In 2002, ComEd collected \$306 million in CTC revenue. Based on the changes in the CTC as part of the Agreement and on current assumptions about the competitive price of delivered energy and customers' choice of electric supplier, ComEd estimates that CTC revenue will be approximately \$300 million in 2003 and approximately \$140 million for each of the years 2004 through 2006.

During the first quarter of 2003, ComEd recorded a charge to earnings associated with the funding of specified programs and initiatives associated with the Agreement of \$51 million on a present value basis before income taxes. This amount is partially offset by the reversal of a \$12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding and a credit of \$10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The net one-time charge for these items is \$29 million (before income taxes).

- o ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the Internal Revenue Service (IRS). The fees for these agreements are contingent upon a successful outcome and are based upon a percentage of the refunds recovered from the IRS, if any. As such, ComEd and PECO would have positive net cash flows related to these agreements if any fees are paid to the tax consultant. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of Energy Delivery. ComEd's tax benefits for periods prior to the Merger would be recorded as a reduction of goodwill pursuant to a reallocation of the Merger purchase price. Energy Delivery cannot predict the timing of the final resolution of these refund claims.
- o See Note 9 to the Condensed Combined Notes to Consolidated Financial Statements for discussion of material changes in Exelon's debt and preferred securities obligations from those set forth in the 2002 Form 10-K.
- o Generation entered into a PPA dated June 26, 2003 with AmerGen. Under the PPA, Generation has agreed to purchase 100% of energy generated by Oyster Creek Nuclear Power Station (Oyster Creek) through April 9, 2009. See Note 8 of the Condensed Combined Notes to Consolidated Financial Statements for commercial commitments tables representing Exelon's commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure their obligations.
- o On May 29, 2003, Exelon Fossil Holdings, Inc., a wholly-owned subsidiary of Generation, issued an irrevocable call notice for the 35.2% interest in Sithe owned by Apollo Energy, LLC and the 14.9% interest owned by subsidiaries of Marubeni Corporation. The total call price was based on the terms of the existing Put and Call Agreement (PCA) among the parties and approximated \$650 million. The transfer of ownership requires various regulatory approvals including FERC, the state environmental agency in New Jersey, and expiration of the Hart Scott Rodino waiting period.

Under the terms of the PCA, the call must be funded within six months of the call notice being issued. Additionally, because the Federal Power Act restricts Exelon's ownership of 50% or more of Qualifying Facilities (QFs), the QFs owned by Sithe must be sold or restructured before closing to preserve their QF status. Despite the issuance of the call notice, Generation continues to pursue options to sell its investment in Sithe in its entirety.

- o In June 2003, Generation entered an agreement with USEC Inc. to purchase approximately \$700 million of nuclear fuel from 2005 through 2010.

## GENERAL

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

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Significant Operating Trends - ComEd

|  | Three Months Ended June 30, |          | Variance | % Change |
|--|-----------------------------|----------|----------|----------|
|  | 2003                        | 2002     |          |          |
| OPERATING REVENUES   | \$ 1,361                    | \$ 1,481 | \$ (120) | (8.1%)   |
| OPERATING EXPENSES   |                             |          |          |          |
| Purchased power  | 533                         | 553      | (20)     | (3.6%)   |
| Operating and maintenance                                    | 221                         | 220      | 1        | 0.5%     |
| Depreciation and amortization                                | 96                          | 133      | (37)     | (27.8%)  |
| Taxes other than income                                      | 68                          | 73       | (5)      | (6.8%)   |
| Total operating expenses                                     | 918                         | 979      | (61)     | (6.2%)   |
| OPERATING INCOME   | 443                         | 502      | (59)     | (11.8%)  |
| OTHER INCOME AND DEDUCTIONS                                  |                             |          |          |          |
| Interest expense   | (106)                       | (127)    | 21       | (16.5%)  |
| Distributions on mandatorily redeemable preferred securities | (6)                         | (7)      | 1        | (14.3%)  |
| Other, net   | 12                          | 14       | (2)      | (14.3%)  |
| Total other income and deductions                            | (100)                       | (120)    | 20       | (16.7%)  |
| INCOME BEFORE INCOME TAXES                                   | 343                         | 382      | (39)     | (10.2%)  |
| INCOME TAXES   | 138                         | 151      | (13)     | (8.6%)   |
| NET INCOME   | \$ 205                      | \$ 231   | \$ (26)  | (11.3%)  |

## Net Income

Net income decreased \$26 million, or 11% for the three months ended June 30, 2003 as compared to the same period in 2002. Net income was negatively impacted by lower operating revenues net of purchased power expense primarily due to unfavorable weather and customers purchasing energy from an ARES or the PPO, partially offset by lower depreciation and amortization expense and interest expense.

Operating Revenues

ComEd's electric sales statistics are as follows:

| Retail Deliveries - (in GWhs)           | Three Months Ended June 30, |               | Variance       | % Change      |
|---|-----------------------------|---------------|----------------|---------------|
|   | 2003                        | 2002          |                |               |
| <b>Bundled Deliveries (1)</b>           |                             |               |                |               |
| Residential                             | 5,163                       | 5,862         | (699)          | (11.9%)       |
| Small Commercial & Industrial           | 5,114                       | 5,600         | (486)          | (8.7%)        |
| Large Commercial & Industrial           | 1,683                       | 2,122         | (439)          | (20.7%)       |
| Public Authorities & Electric Railroads | 1,333                       | 1,685         | (352)          | (20.9%)       |
|   | 13,293                      | 15,269        | (1,976)        | (12.9%)       |
| <b>Unbundled Deliveries (2)</b>         |                             |               |                |               |
| <b>ARES</b>                             |                             |               |                |               |
| Small Commercial & Industrial           | 1,257                       | 1,177         | 80             | 6.8%          |
| Large Commercial & Industrial           | 2,128                       | 1,622         | 506            | 31.2%         |
| Public Authorities & Electric Railroads | 247                         | 181           | 66             | 36.5%         |
|   | 3,632                       | 2,980         | 652            | 21.9%         |
| <b>PPO</b>                              |                             |               |                |               |
| Small Commercial & Industrial           | 869                         | 839           | 30             | 3.6%          |
| Large Commercial & Industrial           | 1,318                       | 1,392         | (74)           | (5.3%)        |
| Public Authorities & Electric Railroads | 531                         | 274           | 257            | 93.8%         |
|   | 2,718                       | 2,505         | 213            | 8.5%          |
| <b>Total Unbundled Deliveries</b>       | <b>6,350</b>                | <b>5,485</b>  | <b>865</b>     | <b>15.8%</b>  |
| <b>Total Retail Deliveries</b>          | <b>19,643</b>               | <b>20,754</b> | <b>(1,111)</b> | <b>(5.4%)</b> |

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.

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

| Electric Revenue                        | Three Months Ended June 30, |                 | Variance        | % Change      |
|---|-----------------------------|-----------------|-----------------|---------------|
|   | 2003                        | 2002            |                 |               |
| <b>Bundled Revenues (1)</b>             |                             |                 |                 |               |
| Residential                             | \$ 472                      | \$ 523          | \$ (51)         | (9.8%)        |
| Small Commercial & Industrial           | 405                         | 445             | (40)            | (9.0%)        |
| Large Commercial & Industrial           | 84                          | 116             | (32)            | (27.6%)       |
| Public Authorities & Electric Railroads | 81                          | 102             | (21)            | (20.6%)       |
|   | 1,042                       | 1,186           | (144)           | (12.1%)       |
| <b>Unbundled Revenues (2)</b>           |                             |                 |                 |               |
| ARES                                    |                             |                 |                 |               |
| Small Commercial & Industrial           | 32                          | 30              | 2               | 6.7%          |
| Large Commercial & Industrial           | 43                          | 32              | 11              | 34.4%         |
| Public Authorities & Electric Railroads | 8                           | 5               | 3               | 60.0%         |
|   | 83                          | 67              | 16              | 23.9%         |
| PPO                                     |                             |                 |                 |               |
| Small Commercial & Industrial           | 59                          | 55              | 4               | 7.3%          |
| Large Commercial & Industrial           | 72                          | 76              | (4)             | (5.3%)        |
| Public Authorities & Electric Railroads | 28                          | 17              | 11              | 64.7%         |
|   | 159                         | 148             | 11              | 7.4%          |
| <b>Total Unbundled Revenues</b>         | <b>242</b>                  | <b>215</b>      | <b>27</b>       | <b>12.6%</b>  |
| <b>Total Electric Retail Revenues</b>   | <b>1,284</b>                | <b>1,401</b>    | <b>(117)</b>    | <b>(8.4)%</b> |
| Wholesale and Miscellaneous Revenue (3) | 77                          | 80              | (3)             | (3.8)%        |
| <b>Total Electric Revenue</b>           | <b>\$ 1,361</b>             | <b>\$ 1,481</b> | <b>\$ (120)</b> | <b>(8.1)%</b> |

- (1) Bundled revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy.
- (2) Revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue. Revenue from customers choosing the PPO includes an energy charge at market rates, transmission and distribution charges, and a CTC charge.
- (3) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the three months ended June 30, 2003, as compared to the same period in 2002, are attributable to the following:

|                                | Variance        |
|--------------------------------|-----------------|
| Weather                        | \$ (108)        |
| Customer choice                | (38)            |
| Volume                         | 25              |
| Rate changes                   | (8)             |
| Other effects                  | 12              |
| <b>Electric retail revenue</b> | <b>\$ (117)</b> |

o Weather. The demand for electricity is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. The weather impact for the three months ended June 30, 2003 was unfavorable compared to the same period in 2002 as a result of cooler spring weather in 2003. Cooling degree-days decreased 63% in the three months ended June 30, 2003 compared to the same period in 2002 and were 49% lower than normal.

- o Customer Choice. All ComEd customers have the choice to purchase energy from other suppliers. This choice generally does not impact the volume of deliveries, but affects revenue collected from customers related to energy supplied by ComEd. However, as of June 30, 2003, no ARES has sought approval from the ICC, and no electric utilities have chosen to enter the ComEd residential market for the supply of electricity.

For the three months ended June 30, 2003, the energy provided by alternative suppliers was 3,632 GWhs or 18.5% as compared to 2,980 GWhs or 14.4% for the three months ended June 30, 2002.

The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO. As of June 30, 2003, the number of retail customers that had elected to purchase energy from an ARES or the ComEd PPO was approximately 22,000 or 0.6% as compared to 22,700 or 0.6% as of June 30, 2002. MWhs delivered to such customers increased from approximately 5.5 million for the three months ended June 30, 2002 to 6.3 million for the three months ended June 30, 2003, or from 26% to 32% of total quarterly retail deliveries. During the second quarter 2003, approximately 2,500 customers temporarily came back to the ComEd PPO as a result of an ARES no longer providing service in Illinois.

- o Volume. Revenues from higher delivery volume, exclusive of weather, increased due to an increased usage per customer, primarily residential and PPO.
- o Rate Changes. The decrease in revenues attributable to rate changes reflects decreased wholesale market prices which decreased energy revenue received under ComEd's PPO by \$48 million. This was partially offset by the collection of additional CTC's in 2003 by ComEd of \$40 million due to an increase in sales to customers choosing an ARES or the ComEd PPO and an increase in the CTC rates due to lower wholesale market prices of electricity, net of increased mitigation factors. Starting in the June 2003 billing cycle the increased wholesale market price of electricity, net of increased mitigation factors, as a result of the Agreement described in Note 4 of the Condensed Combined Notes to Consolidated Financial Statements, decreases the collection of CTC's as compared to the respective period in 2002.

Wholesale and miscellaneous revenue for the three months ended June 30, 2003 were comparable to the three months ended June 30, 2002.

#### Purchased Power

Purchased power expense decreased \$20 million, or 4% for the three months ended June 30, 2003. The decrease in purchased power expense was primarily attributable to a \$47 million decrease due to unfavorable weather conditions, a \$21 million decrease as a result of customers choosing to purchase energy from an ARES, partially offset by an increase of \$10 million due to higher volume, \$22 million increase due to pricing changes related to ComEd's PPA with Generation and an increase of \$16 million under the PPA related to decommissioning collections associated with the adoption of SFAS No. 143 that were not included in purchased power in 2002. The \$16 million increase in purchased power expense related to SFAS No. 143 is offset by lower regulatory asset amortization.

Operating and Maintenance

O&M expense increased \$1 million for the three months ended June 30, 2003. The increase in O&M expense was primarily attributable to an increase of \$6 million in the reserve for manufactured gas plant (MGP) investigation and remediation as a result of increased costs of a MGP site in Oak Park, Illinois, partially offset by lower other O&M's.

Depreciation and Amortization

Depreciation and amortization expense decreased \$37 million, or 28%, for the three months ended June 30, 2003 as follows:

|   | Three Months Ended June 30, |        | Variance | % Change |
|---|-----------------------------|--------|----------|----------|
|   | 2003                        | 2002   |          |          |
| Depreciation expense                      | \$ 76                       | \$ 92  | \$ (16)  | (17.4%)  |
| Recoverable transition costs amortization | 12                          | 20     | (8)      | (40.0%)  |
| Other amortization expense                | 8                           | 21     | (13)     | (61.9%)  |
| Total depreciation and amortization       | \$ 96                       | \$ 133 | \$ (37)  | (27.8%)  |

The decrease in depreciation expense is primarily due to lower depreciation rates effective July 1, 2002, partially offset by higher property, plant and equipment balances. ComEd completed a depreciation study and implemented lower depreciation rates effective July 1, 2002. The new depreciation rates reflect ComEd's significant construction program in recent years, changes in and development of new technologies, and changes in estimated plant service lives since the last depreciation study. The annual reduction in depreciation expense is estimated to be approximately \$100 million (\$60 million, net of income taxes) based on December 31, 2001 plant balances. As a result of the change, depreciation expense decreased \$24 million (\$14 million, net of income taxes) for the three months ended June 30, 2003.

Recoverable transition costs amortization decreased in the three months ended June 30, 2003 compared to the same period in 2002. The decrease is a result of the extension of the rate freeze through 2006 that occurred in June 2002. ComEd expects to fully recover its recoverable transition costs regulatory asset balance of \$153 million by 2006. Consistent with the provision of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold.

The decrease in other amortization primarily relates to the reclassification of a regulatory asset for nuclear decommissioning as a result of the adoption of SFAS No. 143 in 2003 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements). This decrease is offset by increased purchased power expense from Generation.

Taxes Other Than Income

Taxes other than income decreased by \$5 million or 7%, as a result of a 2003 refund of \$5 million for Illinois Electricity Distribution Taxes, a \$5 million decrease in other taxes partially offset by a \$5 million increase in Illinois Public Utility Fund taxes, which were not charged in 2002.

## Interest Charges

Interest charges consist of interest expense and distributions on mandatorily redeemable preferred securities. Interest charges decreased \$21 million, or 17%, for the three months ended June 30, 2003 as a result of scheduled principal payments and refinancing existing debt at lower interest rates.

## Other, Net

Other, net decreased by \$2 million for the three months ended June 30, 2003 as compared to the same period in 2002.

## Income Taxes

The effective income tax rate was 40.2% for the three months ended June 30, 2003, compared to 39.5% for the three months ended June 30, 2002.

## Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

### Significant Operating Trends - ComEd

|  | Six Months Ended June 30, |          | Variance | % Change |
|--|---------------------------|----------|----------|----------|
|  | 2003                      | 2002     |          |          |
| OPERATING REVENUES   | \$ 2,785                  | \$ 2,796 | \$ (11)  | (0.4%)   |
| OPERATING EXPENSES   |                           |          |          |          |
| Purchased power  | 1,110                     | 1,091    | 19       | 1.7%     |
| Operating and maintenance  | 483                       | 457      | 26       | 5.7%     |
| Depreciation and amortization  | 190                       | 268      | (78)     | (29.1%)  |
| Taxes other than income  | 148                       | 146      | 2        | 1.4%     |
| Total operating expenses   | 1,931                     | 1,962    | (31)     | (1.6%)   |
| OPERATING INCOME   | 854                       | 834      | 20       | 2.4%     |
| OTHER INCOME AND DEDUCTIONS  |                           |          |          |          |
| Interest expense   | (215)                     | (252)    | 37       | (14.7%)  |
| Distributions on mandatorily redeemable preferred securities                         | (14)                      | (15)     | 1        | (6.7%)   |
| Other, net   | 34                        | 29       | 5        | 17.2%    |
| Total other income and deductions  | (195)                     | (238)    | 43       | (18.1%)  |
| INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 659                       | 596      | 63       | 10.6%    |
| INCOME TAXES   | 263                       | 236      | 27       | 11.4%    |
| NET INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE              | 396                       | 360      | 36       | 10.0%    |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE                                | 5                         | --       | 5        | n.m.     |
| NET INCOME   | \$ 401                    | \$ 360   | \$ 41    | 11.4%    |

n.m. - not meaningful



Net Income

Net income increased \$41 million, or 11% for the six months ended June 30, 2003 as compared to the same period in 2002. Net income was positively impacted by lower depreciation and amortization expense and lower interest expense, partially offset by lower operating revenues primarily due to unfavorable weather and customers purchasing energy from an ARES or the PPO.

Operating Revenues

ComEd's electric sales statistics are as follows:

| Retail Deliveries - (in GWhs)           | Six Months Ended June 30, |        | Variance | % Change |
|---|---------------------------|--------|----------|----------|
|   | 2003                      | 2002   |          |          |
| -----                                   |                           |        |          |          |
| Bundled Deliveries (1)                  |                           |        |          |          |
| Residential                             | 12,049                    | 12,271 | (222)    | (1.8%)   |
| Small Commercial & Industrial           | 10,741                    | 11,049 | (308)    | (2.8%)   |
| Large Commercial & Industrial           | 3,167                     | 4,078  | (911)    | (22.3%)  |
| Public Authorities & Electric Railroads | 2,749                     | 3,486  | (737)    | (21.1%)  |
| -----                                   |                           |        |          |          |
|   | 28,706                    | 30,884 | (2,178)  | (7.1%)   |
| -----                                   |                           |        |          |          |
| Unbundled Deliveries (2)                |                           |        |          |          |
| ARES                                    |                           |        |          |          |
| -----                                   |                           |        |          |          |
| Small Commercial & Industrial           | 2,606                     | 2,181  | 425      | 19.5%    |
| Large Commercial & Industrial           | 3,960                     | 3,008  | 952      | 31.6%    |
| Public Authorities & Electric Railroads | 529                       | 319    | 210      | 65.8%    |
| -----                                   |                           |        |          |          |
|   | 7,095                     | 5,508  | 1,587    | 28.8%    |
| -----                                   |                           |        |          |          |
| PPO                                     |                           |        |          |          |
| -----                                   |                           |        |          |          |
| Small Commercial & Industrial           | 1,662                     | 1,602  | 60       | 3.7%     |
| Large Commercial & Industrial           | 2,750                     | 2,703  | 47       | 1.7%     |
| Public Authorities & Electric Railroads | 1,069                     | 517    | 552      | 106.8%   |
| -----                                   |                           |        |          |          |
|   | 5,481                     | 4,822  | 659      | 13.7%    |
| -----                                   |                           |        |          |          |
| Total Unbundled Deliveries              | 12,576                    | 10,330 | 2,246    | 21.7%    |
| -----                                   |                           |        |          |          |
| Total Retail Deliveries                 | 41,282                    | 41,214 | 68       | 0.2%     |
| =====                                   |                           |        |          |          |

- (1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.  
(2) Unbundled service reflects customers electing to receive electric generation service from an ARES or the PPO.

| Electric Revenue                        | Six Months Ended June 30, |          | Variance | % Change |
|---|---------------------------|----------|----------|----------|
|   | 2003                      | 2002     |          |          |
| -----                                   |                           |          |          |          |
| Bundled Revenues (1)                    |                           |          |          |          |
| Residential                             | \$ 1,018                  | \$ 1,041 | \$ (23)  | (2.2%)   |
| Small Commercial & Industrial           | 802                       | 836      | (34)     | (4.1%)   |
| Large Commercial & Industrial           | 158                       | 218      | (60)     | (27.5%)  |
| Public Authorities & Electric Railroads | 165                       | 194      | (29)     | (14.9%)  |
|   | -----                     | -----    | -----    | -----    |
|   | 2,143                     | 2,289    | (146)    | (6.4%)   |
| -----                                   |                           |          |          |          |
| Unbundled Revenues (2)                  |                           |          |          |          |
| ARES                                    |                           |          |          |          |
|   | -----                     | -----    | -----    | -----    |
| Small Commercial & Industrial           | 73                        | 43       | 30       | 69.8%    |
| Large Commercial & Industrial           | 91                        | 41       | 50       | 122.0%   |
| Public Authorities & Electric Railroads | 17                        | 7        | 10       | 142.9%   |
|   | -----                     | -----    | -----    | -----    |
|   | 181                       | 91       | 90       | 98.9%    |
| -----                                   |                           |          |          |          |
| PPO                                     |                           |          |          |          |
|   | -----                     | -----    | -----    | -----    |
| Small Commercial & Industrial           | 109                       | 98       | 11       | 11.2%    |
| Large Commercial & Industrial           | 144                       | 140      | 4        | 2.9%     |
| Public Authorities & Electric Railroads | 55                        | 29       | 26       | 89.7%    |
|   | -----                     | -----    | -----    | -----    |
|   | 308                       | 267      | 41       | 15.4%    |
| -----                                   |                           |          |          |          |
| Total Unbundled Revenues                | 489                       | 358      | 131      | 36.6%    |
| -----                                   |                           |          |          |          |
| Total Electric Retail Revenues          | 2,632                     | 2,647    | (15)     | (0.6%)   |
| Wholesale and Miscellaneous Revenue (3) | 153                       | 149      | 4        | 2.7%     |
| -----                                   |                           |          |          |          |
| Total Electric Revenue                  | \$ 2,785                  | \$ 2,796 | \$ (11)  | (0.4%)   |
| =====                                   |                           |          |          |          |

- (1) Bundled revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and the distribution of the energy.
- (2) Revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue. Revenue from customers choosing the PPO includes an energy charge at market rates, transmission and distribution charges, and a CTC charge.
- (3) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues for the six months ended June 30, 2003, as compared to the same period in 2002, are attributable to the following:

|                         | Variance |
|-------------------------|----------|
| -----                   |          |
| Customer choice         | \$ (77)  |
| Rate changes            | 75       |
| Weather                 | (54)     |
| Volume                  | 32       |
| Other effects           | 9        |
| -----                   |          |
| Electric retail revenue | \$ (15)  |
| =====                   |          |

- o Customer Choice. The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO.

For the six months ended June 30, 2003, the energy provided by alternative suppliers was 7,095 GWhs or 17.2% as compared to 5,508 GWhs or 13.4% for the six months ended June 30, 2002.

As of June 30, 2003, the number of retail customers that had elected to purchase energy from an ARES or the ComEd PPO was approximately 22,000 or 0.6% as compared to

22,700 or 0.6% as of June 30, 2002. MWhs delivered to such customers increased from approximately 10.3 million for the six months ended June 30, 2002 to 12.6 million for the six months ended June 30, 2003, or from 25% to 30% of total year-to-date retail deliveries. During the second quarter 2003, approximately 2,500 customers temporarily came back to the ComEd PPO as a result of an ARES no longer providing service in Illinois.

- o Rate Changes. The increase in revenues attributable to rate changes reflects the collection of additional CTC's in 2003 by ComEd of \$146 million due to an increase in sales to customers choosing an ARES or the ComEd PPO and an increase in CTC rates due to lower wholesale market price of electricity, net of increased mitigation factors. Lower wholesale market prices decreased revenue received under ComEd's PPO by \$71 million.
- o Weather. The weather impact for the six months ended June 30, 2003 was unfavorable compared to the same period in 2002 as a result of cooler spring weather in 2003. Cooling degree-days decreased 63% in the six months ended June 30, 2003 compared to the same period in 2002 and were partially offset by a 13% increase in heating degree days in the six months ended June 30, 2003 compared to the same period in 2002.
- o Volume. Revenues from higher delivery volume, exclusive of weather, increased due to an increased number of customers and increased usage per customer, primarily residential and PPO.

The \$4 million increase in wholesale and miscellaneous revenue for the six months ended June 30, 2003 was comparable to the six months ended June 30, 2002.

#### Purchased Power

Purchased power expense increased \$19 million, or 2% for the six months ended June 30, 2003. The increase in purchased power expense was primarily attributable to an increase of \$22 million due to higher volume, an increase of \$39 million due to pricing changes related to ComEd's PPA with Generation and an increase of \$31 million under the PPA related to decommissioning collections associated with the adoption of SFAS No. 143 that were not included in purchased power in 2002, partially offset by a \$27 million decrease due to unfavorable weather and a \$49 million decrease as a result of customers choosing to purchase energy from an ARES. The \$31 million increase in purchased power expense related to SFAS No. 143 is offset by lower regulatory asset amortization.

#### Operating and Maintenance

O&M expense increased \$26 million, or 6%, for the six months ended June 30, 2003. The increase in O&M expense was primarily attributable to a net one-time charge of \$41 million in 2003 as the result of the Agreement as more fully described in Note 4 of the Condensed Combined Notes to Consolidated Financial Statements and an increase of \$6 million in the reserve for MGP investigation and remediation as a result of increased costs of a MGP site in Oak Park, Illinois, partially offset by higher corporate allocations in 2002 due to executive severance.

Depreciation and Amortization

Depreciation and amortization expense decreased \$78 million, or 29%, for the six months ended June 30, 2003 as follows:

|   | Six Months Ended June 30, |        | Variance | % Change |
|---|---------------------------|--------|----------|----------|
|   | 2003                      | 2002   |          |          |
| Depreciation expense                      | \$ 152                    | \$ 183 | \$ (31)  | (16.9%)  |
| Recoverable transition costs amortization | 23                        | 43     | (20)     | (46.5%)  |
| Other amortization expense                | 15                        | 42     | (27)     | (64.3%)  |
| Total depreciation and amortization       | \$ 190                    | \$ 268 | \$ (78)  | (29.1%)  |

The decrease in depreciation expense is primarily due to lower depreciation rates effective July 1, 2002, partially offset by higher property, plant and equipment balances. ComEd completed a depreciation study and implemented lower depreciation rates effective July 1, 2002. The new depreciation rates reflect ComEd's significant construction program in recent years, changes in and development of new technologies, and changes in estimated plant service lives since the last depreciation study. The annual reduction in depreciation expense is estimated to be approximately \$100 million (\$60 million, net of income taxes) based on December 31, 2001 plant balances. As a result of the change, depreciation expense decreased \$48 million (\$29 million, net of income taxes) for the six months ended June 30, 2003.

Recoverable transition costs amortization decreased in the six months ended June 30, 2003 compared to the same period in 2002. The decrease is a result of the extension of the rate freeze through 2006 that occurred in June 2002. ComEd expects to fully recover its recoverable transition costs regulatory asset balance of \$153 million by 2006. Consistent with the provision of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold.

The decrease in other amortization primarily relates to the reclassification of a regulatory asset for nuclear decommissioning as a result of the adoption of SFAS No. 143 in 2003 (see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements). This decrease is offset by increased purchased power expense from Generation.

Taxes Other Than Income

Taxes other than income were comparable for the six months ended June 30, 2003 and 2002, primarily as a result of a \$5 million refund in 2003 of Illinois Electricity Distribution taxes offset by \$6 million in Illinois Public Utility Fund taxes that were not charged in 2002.

Interest Charges

Interest charges consist of interest expense and distributions on mandatorily redeemable preferred securities. Interest charges decreased \$37 million, or 15%, for the six months ended June 30, 2003. The decrease in interest expense was primarily attributable to the impact of lower interest rates as a result of refinancing existing debt at lower interest rates for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002 and the annual retirement of \$340 million in Transitional Trust Notes.

## Other, Net

Other, net increased by \$5 million for the six months ended June 30, 2003 as compared to the same period in 2002. The increase was primarily attributable to the reversal of a \$12 million reserve in 2003 for a potential plant disallowance as the result of the Agreement as more fully described in Note 4 to the Condensed Combined Notes to Consolidated Financial Statements.

## Income Taxes

The effective income tax rate was 39.9% for the six months ended June 30, 2003, compared to 39.6% for the six months ended June 30, 2002.

Due to revenue needs in the states in which ComEd operates, various state income tax and fee increases have been proposed or are being contemplated. If these changes are enacted, they could increase ComEd's state income tax expense. At this time, however, ComEd cannot predict whether legislation or regulation will be introduced, the form of any legislation or regulation, whether any such legislation or regulation will be passed by the state legislatures or regulatory bodies, and, if enacted, whether any such legislation or regulation would be effective retroactively or prospectively. As a result, ComEd cannot currently estimate the effect of these potential changes in tax laws or regulation.

## Cumulative Effect of a Change in Accounting Principle

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

## LIQUIDITY AND CAPITAL RESOURCES

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing including the issuance of commercial paper, or capital contributions from Exelon. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where ComEd no longer has access to external financing sources at reasonable terms, ComEd has access to a revolving credit facility that ComEd currently utilizes to support its commercial paper program. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Capital resources are used primarily to fund ComEd's capital requirements, including construction, repayments of maturing debt and the payment of dividends.

In the second quarter of 2003, ComEd progressed in its plans to implement the new business model referred to as The Exelon Way. The Exelon Way is focused on improving operating cash flows while meeting service and financial commitments through improved integration of operations and consolidation of support functions. As part of the implementation of The Exelon Way, ComEd anticipates incurring expenses associated with the rationalization of certain business functions and employee separation costs. These expenses may be significant and are expected to be incurred during the remaining half of 2003 through 2005. However, these costs cannot be reasonably estimated at this time.

#### Cash Flows from Operating Activities

Cash flows provided by operations were \$430 million for the six months ended June 30, 2003 compared to \$740 million for the six months ended June 30, 2002. The decrease in cash flows in 2003 was primarily attributable to a \$155 million decrease in working capital as a result of the paydown of intercompany payables to affiliates and other outstanding liabilities, a decrease of \$87 million for pension and non-pension postretirement benefits obligation, a decrease in depreciation and amortization of \$78 million partially offset by an increase in net income of \$41 million. ComEd's future cash flows will depend upon the ability to achieve cost savings in operations and the impact of the economy, weather, and customer choice on its revenues. Although the amounts may vary from period to period as a result of uncertainties inherent in the business, ComEd expects to continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities were \$506 million for the six months ended June 30, 2003 compared to \$352 million for the six months ended June 30, 2002. The increase in cash flows used in investing activities in 2003 was primarily attributable to the \$165 million loaned to Generation as part of the intercompany money pool.

ComEd estimates that it will spend approximately \$720 million in total capital expenditures for 2003. Approximately two-thirds of the budgeted 2003 expenditures are for continuing efforts to further improve the reliability of its transmission and distribution systems. The remaining one third is for capital additions to support new business and customer growth. ComEd anticipates that its capital expenditures will be funded by internally generated funds, borrowings, the issuance of preferred securities, or capital contributions from Exelon. ComEd's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

#### Cash Flows from Financing Activities

Cash flows from financing activities were \$94 million for the six months ended June 30, 2003 as compared to cash flows used in financing of \$57 million for the six months ended June 30, 2002. Cash flows from financing activities were primarily attributable to debt issuances partially offset by retirements and redemptions and payments of dividends to Exelon. The increase in cash flows from financing activities is primarily attributable to increased debt and preferred securities issuances of \$634 million partially offset by increased debt and preferred securities redemptions of \$452 million and increased interest rate swap settlement payments of \$41 million. See Note 9 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of ComEd's debt and preferred securities financing activities. ComEd paid a \$211 million dividend to Exelon during the six months ended June 30, 2003 compared to a \$235 million dividend for the six months ended June 30, 2002.

## Credit Issues

ComEd meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. ComEd, along with Exelon, PECO, and Generation, participates in a \$1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility that became effective on November 22, 2002 includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of June 30, 2003, ComEd's sublimit was \$100 million. The credit facility is used principally to support ComEd's commercial paper program. At June 30, 2003, ComEd had no commercial paper outstanding. For the six months ended June 30, 2003, the average interest rate on notes payable was approximately 1.47%.

The credit facility requires ComEd to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes revenues and interest expenses attributable to securitization of debt, certain changes in working capital, and distributions on preferred securities of subsidiaries. ComEd's threshold for the ratio reflected in the credit agreement cannot be less than 2.25 to 1 for the twelve-month period ended June 30, 2003. At June 30, 2003, ComEd was in compliance with the credit agreement thresholds.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by the Exelon corporate treasurer. ComEd's subsidiary, Commonwealth Edison Company of Indiana, Inc., PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon Corporate and ComEd as lenders. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. There were no material money pool transactions in 2002. During the six months ended June 30, 2003, ComEd had various loans to Generation under the money pool. The maximum amount of outstanding loans at any time during 2003 was \$342 million. As of June 30, 2003, Generation owed ComEd \$165 million on these loans. For the six months ended June 30, 2003, ComEd earned \$1 million in interest.

ComEd's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of ComEd's borrowings is subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities.

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

transitional trust notes). At June 30, 2003, ComEd had retained earnings of \$767 million and its common equity ratio was 46%. Long-term debt included \$1.8 billion of transitional trust notes.

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

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. ComEd's contractual obligations and commercial commitments as of June 30, 2003 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2002 Form 10-K except for the following:

- o On March 3, 2003, ComEd entered into the Agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service. The Agreement addressed, among other things, issues related to ComEd's delivery services rate proceeding, market value index proceeding, the process for competitive service declarations for large-load customers and an extension of the PPA with Generation. During the second quarter of 2003, the ICC issued orders consistent with the Agreement, which is now effective.

The Agreement provides for a modification of the methodology used to determine ComEd's market value energy credit. That credit is used to determine the price for specified market-based rate offerings and the amount of the CTC that ComEd is allowed to collect from customers who select an ARES or the PPO. The credit was adjusted upwards through agreed upon "adders" which took effect in June 2003 and will have the effect of reducing ComEd's CTC charges to customers. Prior to the Agreement, all CTC charges were subject to annual mid-year adjustments based on the forward market prices for on-peak energy and historical market prices for off-peak energy. The Agreement provides that the annual market price adjustment will reflect forward market prices for energy, rather than historical, and allows customers an option to lock in current levels of CTC charges for multi-year periods during the regulatory transition period ending in 2006. These changes provide customers and suppliers greater price certainty and are expected to result in an increase in the number of customers electing to purchase energy from alternate suppliers.

The annual market price adjustments to the CTC effective in June 2002 and June 2003 had the effect of significantly increasing the CTC charge in June 2002, and subsequently significantly reducing the CTC charge in June 2003. In 2002, ComEd collected \$306 million in CTC revenue. Based on the changes in the CTC as part of the Agreement and on current assumptions about the competitive price of delivered energy and customers' choice of electric supplier, ComEd estimates that CTC revenue will be approximately \$300 million in 2003 and approximately \$140 million for each of the years 2004 through 2006.

In the first quarter of 2003, ComEd recorded a charge to earnings associated with the funding of specified programs and initiatives associated with the Agreement of \$51 million on a present value basis before income taxes. This amount is partially offset by the reversal of a \$12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding and a credit of



\$10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The net one-time charge for these items is \$29 million (before income taxes).

- o ComEd has entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. The fees for these agreements are contingent upon a successful outcome and are based upon a percentage of the refunds recovered from the IRS, if any. As such, ComEd would have positive net cash flows related to these agreements if any fees are paid to the tax consultant. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd. ComEd's tax benefits for periods prior to the Merger would be recorded as a reduction of goodwill pursuant to a reallocation of the Merger purchase price. ComEd cannot predict the timing of the final resolution of these refund claims.
- o See Note 9 to the Condensed Combined Notes to Consolidated Financial Statements for discussion of material changes in ComEd's debt and preferred securities obligations from those set forth in the 2002 Form 10-K.
- o See Note 8 of the Condensed Combined Notes to Consolidated Financial Statements for commercial commitments tables representing ComEd's commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure their obligations.

PECO ENERGY COMPANY  
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GENERAL

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

RESULTS OF OPERATIONS

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Significant Operating Trends - PECO

|  | Three Months Ended June 30, |        |          |          |
|--|-----------------------------|--------|----------|----------|
|  | 2003                        | 2002   | Variance | % Change |
| OPERATING REVENUES   | \$ 961                      | \$ 995 | \$ (34)  | (3.4%)   |
| OPERATING EXPENSES   |                             |        |          |          |
| Purchased power  | 386                         | 405    | (19)     | (4.7%)   |
| Fuel   | 67                          | 53     | 14       | 26.4%    |
| Operating and maintenance                                    | 121                         | 131    | (10)     | (7.6%)   |
| Depreciation and amortization                                | 116                         | 109    | 7        | 6.4%     |
| Taxes other than income                                      | 47                          | 63     | (16)     | (25.4%)  |
| Total operating expenses                                     | 737                         | 761    | (24)     | (3.2%)   |
| OPERATING INCOME   | 224                         | 234    | (10)     | (4.3%)   |
| OTHER INCOME AND DEDUCTIONS                                  |                             |        |          |          |
| Interest expense   | (83)                        | (92)   | 9        | (9.8%)   |
| Distributions on mandatorily redeemable preferred securities | (2)                         | (2)    | --       | --       |
| Other, net   | 1                           | 2      | (1)      | (50.0%)  |
| Total other income and deductions                            | (84)                        | (92)   | 8        | (8.7%)   |
| INCOME BEFORE INCOME TAXES                                   | 140                         | 142    | (2)      | (1.4%)   |
| INCOME TAXES   | 52                          | 49     | 3        | 6.1%     |
| NET INCOME   | 88                          | 93     | (5)      | (5.4%)   |
| Preferred stock dividends                                    | (2)                         | (2)    | --       | --       |
| NET INCOME ON COMMON STOCK                                   | \$ 86                       | \$ 91  | \$ (5)   | (5.5%)   |

Net Income

Net income on common stock decreased \$5 million, or 6% for the three months ended June 30, 2003 as compared to the same period in 2002. The decrease was a result of lower sales volume and unfavorable weather conditions, partially offset by lower operating and maintenance expenses, taxes other than income and interest expense on debt.

Operating Revenue

PECO's electric sales statistics are as follows:

| Retail Deliveries - (in GWhs)               | Three Months Ended June 30, |       | Variance | % Change |
|---|-----------------------------|-------|----------|----------|
|   | 2003                        | 2002  |          |          |
| -----                                       |                             |       |          |          |
| Bundled Deliveries (1)                      |                             |       |          |          |
| Residential                                 | 2,274                       | 2,115 | 159      | 7.5%     |
| Small Commercial & Industrial               | 1,532                       | 1,881 | (349)    | (18.6%)  |
| Large Commercial & Industrial               | 3,695                       | 3,927 | (232)    | (5.9%)   |
| Public Authorities & Electric Railroads     | 222                         | 200   | 22       | 11.0%    |
| -----                                       |                             |       |          |          |
|   | 7,723                       | 8,123 | (400)    | (4.9%)   |
| -----                                       |                             |       |          |          |
| Unbundled Deliveries (2)                    |                             |       |          |          |
| Residential                                 | 186                         | 557   | (371)    | (66.6%)  |
| Small Commercial & Industrial               | 323                         | 2     | 321      | n.m.     |
| Large Commercial & Industrial               | 192                         | 13    | 179      | n.m.     |
| Public Authorities & Electric Railroads (3) | --                          | --    | --       | --       |
| -----                                       |                             |       |          |          |
|   | 701                         | 572   | 129      | 22.6%    |
| -----                                       |                             |       |          |          |
| Total Retail Deliveries                     | 8,424                       | 8,695 | (271)    | (3.1%)   |
| =====                                       |                             |       |          |          |

- (1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.  
(2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.  
(3) PECO's unbundled sales to Public Authorities and Electric Railroads were less than one GWh per quarter.

n.m. - not meaningful

| Electric Revenue                            | Three Months Ended June 30, |        | Variance | % Change |
|---|-----------------------------|--------|----------|----------|
|   | 2003                        | 2002   |          |          |
| -----                                       |                             |        |          |          |
| Bundled Revenue (1)                         |                             |        |          |          |
| Residential                                 | \$ 297                      | \$ 278 | \$ 19    | 6.8%     |
| Small Commercial & Industrial               | 180                         | 224    | (44)     | (19.6%)  |
| Large Commercial & Industrial               | 267                         | 288    | (21)     | (7.3%)   |
| Public Authorities & Electric Railroads     | 21                          | 19     | 2        | 10.5%    |
| -----                                       |                             |        |          |          |
|   | 765                         | 809    | (44)     | (5.4%)   |
| -----                                       |                             |        |          |          |
| Unbundled Revenue (2)                       |                             |        |          |          |
| Residential                                 | 14                          | 42     | (28)     | (66.7%)  |
| Small Commercial & Industrial               | 17                          | --     | 17       | 100.0%   |
| Large Commercial & Industrial               | 5                           | 1      | 4        | n.m.     |
| Public Authorities & Electric Railroads (3) | --                          | --     | --       | --       |
| -----                                       |                             |        |          |          |
|   | 36                          | 43     | (7)      | (16.3%)  |
| -----                                       |                             |        |          |          |
| Total Electric Retail Revenues              | 801                         | 852    | (51)     | (6.0%)   |
| Wholesale and Miscellaneous Revenue (4)     | 50                          | 59     | (9)      | (15.3%)  |
| -----                                       |                             |        |          |          |
| Total Electric Revenue                      | \$ 851                      | \$ 911 | \$ (60)  | (6.6%)   |
| =====                                       |                             |        |          |          |

- (1) Bundled revenue reflects revenue from customers taking electric service under tariffed rates, which includes the cost of energy, the delivery cost of the transmission and the distribution of the energy and a CTC charge.

- (2) Unbundled revenue reflects revenue from customers electing to receive generation from an alternative supplier, which includes a distribution charge and a CTC charge.
- (3) PECO's unbundled sales to Public Authorities and Electric Railroads were less than \$1 million per quarter.
- (4) Wholesale and miscellaneous revenues include transmission revenue and other wholesale energy sales.

The changes in electric retail revenues for the three months ended June 30, 2003, as compared to the same period in 2002, are as follows:

|                 | Variance |
|-----------------|----------|
| -----           |          |
| Weather         | \$ (21)  |
| Customer choice | (8)      |
| Volume          | (7)      |
| Other effects   | (15)     |
| -----           |          |
| Retail revenue  | \$ (51)  |
| =====           |          |

- o Weather. The demand for electricity is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. The weather impact was unfavorable compared to the prior year as a result of cooler spring weather during the quarter. Cooling degree-days decreased 40% and heating degree-days increased 38% for the three months ended June 30, 2003 compared to the same period in 2002.
- o Customer Choice. All PECO customers may choose to purchase energy from other suppliers. This choice generally does not impact kwh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO.

For the three months ended June 30, 2003, the energy provided by alternative suppliers was 701 GWhs or 8.3% as compared to 572 GWhs or 6.6% for the three months ended June 30, 2002. As of June 30, 2003, the number of customers served by alternative suppliers was 310,821 or 20.3% as compared to 308,866 or 20.2% as of June 30, 2002. The decrease in retail deliveries is primarily a result of customers selecting an alternative electric generation supplier.

The PUC's Final Electric Restructuring Order established market share thresholds (MST) to promote competition. The MST requirements provide that if, as of January 1, 2003, less than 50% of residential and commercial customers have chosen an alternative electric generation supplier, the number of customers sufficient to meet the MST shall be randomly selected and assigned to an alternative electric generation supplier through a PUC determined process. On January 1, 2003, the number of customers choosing an alternative electric generation supplier did not meet the MST. In January 2003, PECO submitted to the PUC an MST plan to meet the 50% threshold requirement for its commercial customers, which was approved by the PUC in February 2003. As of March 31, 2003, an auction had been completed for the commercial customers. In May 2003, the customer enrollment phase was completed and customers that did not choose to opt out of the program were transferred to the alternative electric generation suppliers. In February 2003, PECO filed a residential customer MST plan, and on May 1, 2003, the PUC approved the plan. The approved plan provides for a two-step process with a total of up to 400,000 residential customers being assigned to winning alternative electric generation supplier bidders: up to 100,000 in July 2003, and another 300,000 in December 2003. The auction for the first phase of the residential program received no supplier bids. Therefore, according to the MST plan

requirements, 75% of those customers are required to be added to the auction for the second phase of the residential program for a total of 375,000 customers. The auction for the second phase of the residential customer MST plan is scheduled for September 2003 and the selected customers would be transferred effective December 2003. Any customer transferred would have the right to return to PECO at any time. PECO does not expect the transfer of customers pursuant to the MST plan to have a material impact on its results of operations, financial position or cash flows.

- o Volume. Exclusive of weather impacts, lower delivery volume affected PECO's revenue by \$7 million compared to the same period in 2002 primarily related to decreases in usage by the residential and large commercial and industrial customer classes partially offset by an increase in usage by the small commercial and industrial class.
- o Other Effects. The decrease in revenues from other effects is attributable to a decrease of \$15 million in the average price mix related to all customer classes as compared to the same period in 2002.

PECO's gas sales statistics for the three months ended June 30, 2003 as compared to the same period in 2002 are as follows:

|                    | Three Months Ended June 30, |        | Variance | % Change |
|--------------------|-----------------------------|--------|----------|----------|
|                    | 2003                        | 2002   |          |          |
| Deliveries in mscf | 15,001                      | 14,286 | 715      | 5.0%     |
| Revenue            | \$ 110                      | \$ 84  | \$ 26    | 31.0%    |

The changes in gas revenue for the three months ended June 30, 2003, as compared to the same period in 2002, are as follows:

|              | Variance |
|--------------|----------|
| Weather      | \$ 14    |
| Rate changes | 10       |
| Volume       | 2        |
| Gas revenue  | \$ 26    |

- o Weather. The demand for gas is impacted by weather conditions. Very cold weather in non-summer months is referred to as "favorable weather conditions," because these weather conditions result in increased sales of gas. Conversely, mild weather reduces demand. The weather impact was favorable compared to the prior year as a result of cooler spring weather during the quarter. Heating degree-days increased 38% in the three months ended June 30, 2003 compared to the same period in 2002.
- o Rate Changes. The favorable variance in rate changes is attributable to a 15% increase and a 7% increase in the purchased gas adjustment by the PUC effective March 1, 2003 and June 1, 2003, respectively. The average rate per million cubic feet for the three months ended June 30, 2003 was 22% higher than the same period in 2002. PECO's gas rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between the actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.

o Volume. Exclusive of weather impacts, delivery volume was consistent in the three months ended June 30, 2003 compared to the same period in 2002 with increased retail sales, partially offset by lower transportation volumes. Deliveries to customers, excluding transportation and the effects of weather, increased 4% in the three months ended June 30, 2003 compared to the same period in 2002.

Purchased Power

Purchased power expense for the three months ended June 30, 2003 decreased \$19 million, or 5%, as compared to the same period in 2002. The decrease in purchased power expense was primarily attributable to \$12 million as a result of unfavorable weather conditions, \$7 million related to lower PJM ancillary charges and \$5 million from customers in Pennsylvania selecting an alternative electric generation supplier.

Fuel expense for the three months ended June 30, 2003 increased \$14 million, or 26%, as compared to the same period in 2002. This increase was primarily attributable to \$11 million attributable to higher gas prices and \$10 million as a result of favorable weather conditions partially offset by \$8 million related to lower wholesale sales of gas.

Operating and Maintenance

O&M expense for the three months ended June 30, 2003 decreased \$10 million, or 8%, as compared to the same period in 2002. The decrease in O&M expense was primarily attributable to \$7 million of lower expense related to the allowance for the uncollectible accounts, \$7 million of lower costs associated with the initial implementation of automated meter reading services, partially offset by \$2 million related to higher corporate allocations and \$2 million of additional severance costs.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2003 increased \$7 million, or 6%, as compared to the same period in 2002 as follows:

|  | Three Months Ended June 30, |               |             |             |
|--|-----------------------------|---------------|-------------|-------------|
|  | 2003                        | 2002          | Variance    | % Change    |
| Competitive transition charge amortization | \$ 79                       | \$ 72         | \$ 7        | 9.7%        |
| Depreciation expense                       | 33                          | 32            | 1           | 3.1%        |
| Other amortization expense                 | 4                           | 5             | (1)         | (20.0%)     |
| <b>Total depreciation and amortization</b> | <b>\$ 116</b>               | <b>\$ 109</b> | <b>\$ 7</b> | <b>6.4%</b> |

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

Taxes Other Than Income

Taxes other than income for the three months ended June 30, 2003 decreased \$16 million, or 25%, as compared to the same period in 2002. The decrease was primarily attributable to \$12 million related to the reversal of a use tax accrual resulting from an audit settlement and \$2 million of lower gross receipts tax related to lower revenues.

#### Interest Charges

Interest charges consist of interest expense and distributions on mandatorily redeemable preferred securities. Interest charges decreased \$9 million, or 10%, in the three months ended June 30, 2003 as compared to the same period in 2002. The decrease was primarily attributable to lower interest expense on long-term debt of \$9 million as a result of scheduled principal payments and refinancing of existing debt at lower interest rates.

#### Other, Net

Other, net decreased income by \$1 million in the three months ended June 30, 2003 as compared to the same period in 2002. The decrease was attributable to lower interest income of \$1 million.

#### Income Taxes

The effective tax rate was 37.1% for the three months ended June 30, 2003 as compared to 34.5% for the same period in 2002. The increase in the effective tax rate primarily reflects the impact of changes in income before income taxes.

#### Preferred Stock Dividends

Preferred stock dividends for the three months ended June 30, 2003 were consistent as compared to the same period in 2002.

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Significant Operating Trends - PECO

|  | Six Months Ended June 30, |          | Variance | % Change |
|--|---------------------------|----------|----------|----------|
|  | 2003                      | 2002     |          |          |
| OPERATING REVENUES   | \$ 2,178                  | \$ 2,015 | \$ 163   | 8.1%     |
| OPERATING EXPENSES   |                           |          |          |          |
| Purchased power  | 808                       | 756      | 52       | 6.9%     |
| Fuel   | 257                       | 188      | 69       | 36.7%    |
| Operating and maintenance                                    | 261                       | 267      | (6)      | (2.2%)   |
| Depreciation and amortization                                | 236                       | 221      | 15       | 6.8%     |
| Taxes other than income                                      | 110                       | 122      | (12)     | (9.8%)   |
| Total operating expenses                                     | 1,672                     | 1,554    | 118      | 7.6%     |
| OPERATING INCOME   | 506                       | 461      | 45       | 9.8%     |
| OTHER INCOME AND DEDUCTIONS                                  |                           |          |          |          |
| Interest expense   | (168)                     | (187)    | 19       | (10.2%)  |
| Distributions on mandatorily redeemable preferred securities | (5)                       | (5)      | --       | --       |
| Other, net   | 10                        | 2        | 8        | n.m.     |
| Total other income and deductions                            | (163)                     | (190)    | 27       | (14.2%)  |
| INCOME BEFORE INCOME TAXES                                   | 343                       | 271      | 72       | 26.6%    |
| INCOME TAXES   | 119                       | 90       | 29       | 32.2%    |
| NET INCOME   | 224                       | 181      | 43       | 23.8%    |
| Preferred stock dividends                                    | (3)                       | (4)      | 1        | (25.0%)  |
| NET INCOME ON COMMON STOCK                                   | \$ 221                    | \$ 177   | \$ 44    | 24.9%    |

n.m. - not meaningful

Net Income

Net income on common stock increased \$44 million, or 25% for the six months ended June 30, 2003 as compared to the same period in 2002. The increase was a result of higher sales volume, favorable weather conditions and lower interest expense on debt, partially offset by increased income taxes and depreciation and amortization expense.



Operating Revenue

PECO's electric sales statistics are as follows:

| Retail Deliveries (in GWhs)                 | Six Months Ended June 30, |               | Variance   | % Change    |
|---|---------------------------|---------------|------------|-------------|
|   | 2003                      | 2002          |            |             |
| <b>Bundled Deliveries (1)</b>               |                           |               |            |             |
| Residential                                 | 5,389                     | 4,171         | 1,218      | 29.2%       |
| Small Commercial & Industrial               | 3,312                     | 3,638         | (326)      | (9.0%)      |
| Large Commercial & Industrial               | 7,177                     | 7,278         | (101)      | (1.4%)      |
| Public Authorities & Electric Railroads     | 475                       | 393           | 82         | 20.9%       |
|   | 16,353                    | 15,480        | 873        | 5.6%        |
| <b>Unbundled Deliveries (2)</b>             |                           |               |            |             |
| Residential                                 | 450                       | 1,348         | (898)      | (66.6%)     |
| Small Commercial & Industrial               | 525                       | 99            | 426        | n.m.        |
| Large Commercial & Industrial               | 402                       | 116           | 286        | n.m.        |
| Public Authorities & Electric Railroads (3) | --                        | --            | --         | --          |
|   | 1,377                     | 1,563         | (186)      | (11.9%)     |
| <b>Total Retail Deliveries</b>              | <b>17,730</b>             | <b>17,043</b> | <b>687</b> | <b>4.0%</b> |

- (1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.
- (2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.
- (3) PECO's unbundled sales to Public Authorities and Electric Railroads were less than one GWh per quarter.

n.m. - not meaningful

| Electric Revenue                            | Six Months Ended June 30, |                 | Variance     | % Change    |
|---|---------------------------|-----------------|--------------|-------------|
|   | 2003                      | 2002            |              |             |
| <b>Bundled Revenue (1)</b>                  |                           |                 |              |             |
| Residential                                 | \$ 656                    | \$ 522          | \$ 134       | 25.7%       |
| Small Commercial & Industrial               | 374                       | 413             | (39)         | (9.4%)      |
| Large Commercial & Industrial               | 534                       | 532             | 2            | 0.4%        |
| Public Authorities & Electric Railroads     | 42                        | 37              | 5            | 13.5%       |
|   | 1,606                     | 1,504           | 102          | 6.8%        |
| <b>Unbundled Revenue (2)</b>                |                           |                 |              |             |
| Residential                                 | 31                        | 96              | (65)         | (67.7%)     |
| Small Commercial & Industrial               | 27                        | 5               | 22           | n.m.        |
| Large Commercial & Industrial               | 11                        | 3               | 8            | n.m.        |
| Public Authorities & Electric Railroads (3) | --                        | --              | --           | --          |
|   | 69                        | 104             | (35)         | (33.7%)     |
| <b>Total Electric Retail Revenues</b>       | <b>1,675</b>              | <b>1,608</b>    | <b>67</b>    | <b>4.2%</b> |
| Wholesale and Miscellaneous Revenue (4)     | 104                       | 114             | (10)         | (8.8%)      |
| <b>Total Electric Revenue</b>               | <b>\$ 1,779</b>           | <b>\$ 1,722</b> | <b>\$ 57</b> | <b>3.3%</b> |

- (1) Bundled revenue reflects revenue from customers taking electric service under tariffed rates, which includes the cost of energy, the delivery cost of the transmission and the distribution of the energy and a CTC charge.
- (2) Unbundled revenue reflects revenue from customers electing to receive generation from an alternative supplier, which includes a distribution charge and a CTC charge.
- (3) PECO's unbundled sales to Public Authorities and Electric Railroads were less than \$1 million per quarter.
- (4) Wholesale and miscellaneous revenues include transmission revenue and other wholesale energy sales.

The changes in electric retail revenues for the six months ended June 30, 2003, as compared to the same period in 2002, are as follows:

|                       | Variance     |
|-----------------------|--------------|
| Volume                | \$ 36        |
| Weather               | 26           |
| Customer choice       | 11           |
| Other effects         | (6)          |
| <b>Retail revenue</b> | <b>\$ 67</b> |

- o Volume. Exclusive of weather impacts, higher delivery volume affected PECO's revenue by \$36 million compared to the same period in 2002 primarily related to increases in the small and large commercial and industrial customer classes.
- o Weather. The weather impact was favorable compared to the prior year as a result of colder winter weather partially offset by cooler spring weather. Heating degree-days increased 34% and cooling degree-days decreased 40% for the six months ended June 30, 2003 compared to the same period in 2002.
- o Customer Choice. All PECO customers may choose to purchase energy from other suppliers. This choice generally does not impact kwh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO.

For the six months ended June 30, 2003, the energy provided by alternative suppliers was 1,377 Gwhs or 7.8% as compared to 1,563 Gwhs or 9.2% for the six months ended June 30, 2002. As of June 30, 2003, the number of customers served by alternative suppliers was 310,821 or 20.3% as compared to 308,866 or 20.2% as of June 30, 2002. The increase in retail deliveries is primarily a result of customers selecting or returning to PECO as their electric generation supplier.

- o Other Effects. The decrease in revenues from other effects is attributable to a decrease of \$6 million in the average price mix related to all customer classes as compared to the same period in 2002.

PECO's gas sales statistics for the six months ended June 30, 2003 as compared to the same period in 2002 are as follows:

|                   | Six Months Ended June 30, |        | Variance | % Change |
|-------------------|---------------------------|--------|----------|----------|
|                   | 2003                      | 2002   |          |          |
| Deliveries in mcf | 54,627                    | 45,643 | 8,984    | 19.7%    |
| Revenue           | \$ 399                    | \$ 293 | \$ 106   | 36.2%    |

The changes in gas revenue for the six months ended June 30, 2003, as compared to the same period in 2002, are as follows:

|              | Variance |
|--------------|----------|
| Weather      | \$ 73    |
| Volume       | 17       |
| Rate changes | 13       |
| Other        | 3        |
| Gas revenue  | \$ 106   |

- o Weather. The weather impact was favorable compared to the prior year as a result of colder winter weather. Heating degree-days increased 34% in the six months ended June 30, 2003 compared to the same period in 2002.
- o Volume. Exclusive of weather impacts, higher delivery volume increased revenue in the six months ended June 30, 2003 compared to the same period in 2002 resulting from increased retail sales partially offset by lower transportation volumes. Deliveries to customers, excluding transportation and the effects of weather, increased 6% in the six months ended June 30, 2003 compared to the same period in 2002.
- o Rate Changes. The favorable variance in rates is attributable to a 15% increase and a 7% increase in the purchased gas adjustment by the PUC effective March 1, 2003 and June 1, 2003, respectively. The average rate per million cubic feet for the six months ended June 30, 2003 was 13% higher than the rate in the same 2002 period. PECO's gas rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.

#### Purchased Power

Purchased power expense for the six months ended June 30, 2003 increased \$52 million, or 7%, as compared to the same period in 2002. The increase in purchased power expense was primarily attributable to \$21 million as a result of higher electric delivery volume, \$11 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier, \$10 million as a result of favorable weather conditions and \$10 million related to higher PJM ancillary charges.

Fuel

Fuel expense for the six months ended June 30, 2003 increased \$69 million, or 40%, as compared to the same period in 2002. This increase was primarily attributable to \$50 million as a result of favorable weather conditions, \$14 million from higher gas prices and \$8 million attributable to higher delivery volumes.

Operating and Maintenance

O&M expense for the six months ended June 30, 2003 decreased \$6 million, or 2%, as compared to the same period in 2002. The decrease in O&M expense was primarily attributable to \$13 million of lower costs associated with the initial implementation of automated meter reading services, \$9 million of lower expense related to the allowance for uncollectible accounts and \$5 million related to lower corporate allocations partially offset by \$3 million of additional employee benefits costs, \$4 million of incremental storm costs in 2003, \$2 million of additional severance costs and \$5 million of additional miscellaneous other net positive impacts.

Depreciation and Amortization

Depreciation and amortization expense for the six months ended June 30, 2003 increased \$15 million, or 7%, as compared to the same period in 2002 as follows:

|  | Six Months Ended June 30, |               | Variance     | % Change    |
|--|---------------------------|---------------|--------------|-------------|
|  | 2003                      | 2002          |              |             |
| Competitive transition charge amortization | \$ 161                    | \$ 146        | \$ 15        | 10.3%       |
| Depreciation expense                       | 66                        | 63            | 3            | 4.8%        |
| Other amortization expense                 | 9                         | 12            | (3)          | (25.0%)     |
| <b>Total depreciation and amortization</b> | <b>\$ 236</b>             | <b>\$ 221</b> | <b>\$ 15</b> | <b>6.8%</b> |

The additional amortization of the CTC is in accordance with PECO's original settlement under the Pennsylvania Competition Act and the increase in depreciation expense resulted from additional plant in service.

Taxes Other Than Income

Taxes other than income for the six months ended June 30, 2003 decreased \$12 million, or 10%, as compared to the same period in 2002. The decrease was primarily attributable to \$12 million related to the reversal of the use tax accrual resulting from an audit settlement and a \$3 million decrease in real estate taxes partially offset by \$5 million of additional gross receipts tax related to additional revenues.

Interest Charges

Interest charges consist of interest expense and distributions on mandatorily redeemable preferred securities. Interest charges decreased \$19 million, or 10%, in the six months ended June 30, 2003 as compared to the same period in 2002. The decrease was primarily attributable to lower interest expense on long-term debt of \$19 million as a result of scheduled principal payments and refinancing of existing debt at lower interest rates.

## Other, Net

Other, net increased by \$8 million in the six months ended June 30, 2003 as compared to the same period in 2002. The increase was primarily attributable to higher interest income of \$4 million and the favorable settlement of a customer contract of \$3 million.

## Income Taxes

The effective tax rate was 34.6% for the six months ended June 30, 2003 as compared to 33.2% for the same period in 2002. The increase in the effective tax rate primarily reflects the impact of changes in income before income taxes.

Due to revenue needs in the states in which PECO operates, various state income tax and fee increases have been proposed or are being contemplated. If these changes are enacted, they could increase PECO's state income tax expense. At this time, however, PECO cannot predict whether legislation or regulation will be introduced, the form of any legislation or regulation, whether any such legislation or regulation will be passed by the state legislatures or regulatory bodies, and, if enacted, whether any such legislation or regulation would be effective retroactively or prospectively. As a result, PECO cannot currently estimate the effect of these potential changes in tax laws or regulation.

## Preferred Stock Dividends

Preferred stock dividends for the six months ended June 30, 2003 were consistent as compared to the same period in 2002.

## LIQUIDITY AND CAPITAL RESOURCES

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

In the second quarter of 2003, PECO progressed in its plans to implement the new business model referred to as The Exelon Way. The Exelon Way is focused on improving operating cash flows while meeting service and financial commitments through improved integration of operations and consolidation of support functions. As part of the implementation of The Exelon Way, PECO anticipates incurring expenses associated with the rationalization of certain business functions and employee separation costs. These expenses may be significant and are expected to be incurred during the remaining half of 2003 through 2005. However, these

costs cannot be reasonably estimated at this time.

#### Cash Flows from Operating Activities

Cash flows provided by operations for the six months ended June 30, 2003 and 2002 were \$425 million and \$468 million, respectively. The decrease in cash flows was primarily attributable to a \$73 million change in deferred energy costs and a \$4 million decrease in working capital, partially offset by a \$43 million increase in net income. PECO's cash flow from operating activities primarily results from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices. PECO's future cash flows will depend upon the ability to achieve operating cost reductions and the impact of the economy, weather and customer choice on its revenues. Although the amounts may vary from period to period as a result of the uncertainties inherent in its business, PECO expects that it will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities for the six months ended June 30, 2003 and 2002 were \$126 million and \$122 million, respectively. The increase in cash flows used in investing activities was primarily attributable to an increase in other investing activities.

PECO's projected capital expenditures for 2003 are \$265 million. Approximately 60% of the budgeted 2003 expenditures are for capital additions and upgrades to existing facilities and the remainder are for capital additions to support customer load growth. PECO anticipates that its capital expenditures will be funded by internally generated funds, borrowings, the issuance of preferred securities, or capital contributions from Exelon. PECO's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

#### Cash Flows from Financing Activities

Cash flows used in financing activities for the six months ended June 30, 2003 and 2002 were \$301 million and \$306 million, respectively. Cash flows used in financing activities are primarily attributable to debt service and payment of dividends to Exelon. The decrease in cash flows used in financing activities is primarily attributable to additional issuances of long-term debt of \$550 million, partially offset by increased debt and preferred securities redemptions of \$485 million. See Note 9 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of PECO's debt financing activities. For the six months ended June 30, 2003, PECO paid Exelon \$165 million in common stock dividends compared to \$170 million for the same period in 2002.

## Credit Issues

PECO meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. PECO, along with Exelon, ComEd and Generation, participates in a \$1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility became effective November 22, 2002 and includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of June 30, 2003, PECO's sublimit was \$400 million. The credit facility is used by PECO principally to support its commercial paper program. At June 30, 2003, PECO's Consolidated Balance Sheet reflects \$170 million in commercial paper outstanding. For the six months ended June 30, 2003, the average interest rate on notes payable was approximately 1.31%.

The credit facility requires PECO to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes revenues and interest expenses attributable to securitization debt, certain changes in working capital and distributions on preferred securities of subsidiaries. PECO's threshold for the ratio reflected in the credit agreement cannot be less than 2.25 to 1 for the twelve-month period ended June 30, 2003. At June 30, 2003, PECO was in compliance with the credit agreement thresholds.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by Exelon's corporate treasurer. ComEd's subsidiary, Commonwealth Edison Company of Indiana, Inc., PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon Corporate and ComEd as lenders. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. There were no material money pool transactions by PECO during the six months ended June 30, 2003.

PECO's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of PECO's borrowings is subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities.

Under PUHCA, PECO can pay dividends only from retained or current earnings. At June 30, 2003, PECO had retained earnings of \$455 million.

Long-term debt included \$4.1 billion of transition bonds.

Contractual Obligations, Commercial Commitments and  
Off-Balance Sheet Obligations

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. PECO's contractual obligations and commercial commitments as of June 30, 2003 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2002 Form 10-K except for the following:

- o PECO has entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. The fees for these agreements are contingent upon a successful outcome and are based upon a percentage of the refunds recovered from the IRS, if any. As such, PECO would have positive net cash flows related to these agreements if any fees are paid to the tax consultant. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of PECO. PECO cannot predict the timing of the final resolution of these refund claims.
- o See Note 9 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of material changes in PECO's debt obligations from those set forth in the 2002 Form 10-K.
- o See Note 8 of the Condensed Combined Notes to Consolidated Financial Statements for commercial commitments tables representing PECO's commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure their obligations.



EXELON GENERATION COMPANY, LLC  
 -----  
 GENERAL

Generation operates as a single segment and its operations consist of electric generating facilities, energy marketing operations and equity interests in Sithe and AmerGen.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Significant Operating Trends - Generation

|   | Three Months Ended June 30, |          | Variance | % Change |
|---|-----------------------------|----------|----------|----------|
|   | 2003                        | 2002     |          |          |
| OPERATING REVENUES                              | \$ 1,886                    | \$ 1,559 | \$ 327   | 21.0%    |
| OPERATING EXPENSES                              |                             |          |          |          |
| Purchased power                                 | 800                         | 705      | 95       | 13.5%    |
| Fuel  | 348                         | 224      | 124      | 55.4%    |
| Operating and maintenance                       | 451                         | 411      | 40       | 9.7%     |
| Depreciation and amortization                   | 46                          | 65       | (19)     | (29.2%)  |
| Taxes other than income                         | 40                          | 41       | (1)      | (2.4%)   |
| Total operating expenses                        | 1,685                       | 1,446    | 239      | 16.5%    |
| OPERATING INCOME                                | 201                         | 113      | 88       | 77.9%    |
| OTHER INCOME AND DEDUCTIONS                     |                             |          |          |          |
| Interest expense                                | (20)                        | (11)     | (9)      | (81.8%)  |
| Equity in earnings of unconsolidated affiliates | 18                          | 9        | 9        | 100.0%   |
| Other, net                                      | 34                          | 24       | 10       | 41.7%    |
| Total other income and deductions               | 32                          | 22       | 10       | 45.5%    |
| INCOME BEFORE INCOME TAXES                      | 233                         | 135      | 98       | 72.6%    |
| INCOME TAXES                                    | 91                          | 51       | 40       | 78.4%    |
| NET INCOME                                      | \$ 142                      | \$ 84    | \$ 58    | 69.0%    |

Net Income

Generation's net income increased by \$58 million, or 69%, for the three months ended June 30, 2003 compared to the same period in 2002 primarily due to a \$328 million increase in market electric sales. The increase was partially offset by an increase in fuel and purchased power expense related to the increase in market sales, and a \$74 million decrease in electric sales to other Exelon businesses.

Operating Revenues

Revenues increased by \$327 million, or 21% for the three months ended June 30, 2003 compared to the same period in 2002. For the three months ended June 30, 2003 and 2002, Generation's sales were as follows:

| Revenue (in millions)                     | Three Months Ended June 30, |          |          |          |
|---|-----------------------------|----------|----------|----------|
|   | 2003                        | 2002     | Variance | % Change |
| Energy Delivery and Exelon Energy Company | \$ 877                      | \$ 951   | \$ (74)  | (7.8%)   |
| Market Sales                              | 960                         | 632      | 328      | 51.9%    |
| Total Energy Sales Revenue                | 1,837                       | 1,583    | 254      | 16.0%    |
| Trading Portfolio                         | (1)                         | (16)     | 15       | 93.8%    |
| Other Revenue                             | 50                          | (8)      | 58       | n.m.     |
| Total Revenue                             | \$ 1,886                    | \$ 1,559 | \$ 327   | 21.0%    |

n.m. - not meaningful

| Sales (in GWhs)                           | Three Months Ended June 30, |        |          |          |
|---|-----------------------------|--------|----------|----------|
|   | 2003                        | 2002   | Variance | % Change |
| Energy Delivery and Exelon Energy Company | 26,869                      | 29,649 | (2,780)  | (9.4%)   |
| Market Sales                              | 27,449                      | 20,589 | 6,860    | 33.3%    |
| Total Sales                               | 54,318                      | 50,238 | 4,080    | 8.1%     |

Trading volume of 7,919 GWhs and 8,566 GWhs for the three months ended June 30, 2003 and 2002, respectively, is not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2003, which are set by the Risk Management Committee and approved by the Board of Directors.

Generation's average revenue (per MWh) on energy sales for the three months ended June 30, 2003 and 2002 is as follows:

| (\$/MWh)                                  | Three Months Ended June 30, |          |          |  |
|---|-----------------------------|----------|----------|--|
|   | 2003                        | 2002     | % Change |  |
| Average Revenue                           |                             |          |          |  |
| Energy Delivery and Exelon Energy Company | \$ 32.67                    | \$ 32.06 | 1.9%     |  |
| Market Sales                              | 34.98                       | 30.69    | 14.0%    |  |
| Total - excluding the trading portfolio   | 33.83                       | 31.50    | 7.4%     |  |

Energy Delivery and Exelon Energy Company. Sales to Energy Delivery decreased by \$57 million primarily due to unfavorable weather in ComEd and PECO's service territories during the three months ended June 30, 2003 compared to the same period in 2002. Generation's average revenue per MWh was affected by increased prices per MWh for supply agreements with ComEd and PECO. Sales to Exelon Energy Company decreased \$17 million for the three months ended June 30, 2003 compared to the same period in 2002 primarily due to the discontinuance of Exelon Energy Company operations in the PJM region.

Market Sales. The increase of \$328 million resulted primarily from increased production from generating assets acquired during 2002, as well as lower load requirements to affiliates and higher wholesale market prices, which were primarily attributable to increased fossil fuel prices.

Trading Revenues. Trading activity decreased revenue by \$1 million during the three months ended June 30, 2003 compared to \$16 million for the same period in 2002 due to reduced trading volume.

Other Revenues. Other revenues in the three months ended June 30, 2003 included \$21 million from market gas sales, and \$18 million from ComEd related to nuclear decommissioning cost recoveries, and \$7 million of cost recoveries from PECO.

Purchased Power and Fuel

Generation's supply source of its sales and average supply costs are summarized below:

| Supply of Sales (in GWhs)             | Three Months Ended June 30, |        | Variance | % Change |
|---------------------------------------|-----------------------------|--------|----------|----------|
|                                       | 2003                        | 2002   |          |          |
| Purchases - non-trading portfolio (1) | 19,344                      | 17,978 | 1,366    | 7.6%     |
| Nuclear Generation (2)                | 29,619                      | 28,776 | 843      | 2.9%     |
| Fossil and Hydro Generation           | 5,355                       | 3,484  | 1,871    | 53.7%    |
| Total Supply                          | 54,318                      | 50,238 | 4,080    | 8.1%     |

- (1) Including purchased power agreements with AmerGen.  
(2) Excluding AmerGen.

| (\$/MWh)  | Three Months Ended June 30, |          | % Change |
|---|-----------------------------|----------|----------|
|   | 2003                        | 2002     |          |
| Average Supply Cost (1) - excluding trading portfolio | \$ 20.71                    | \$ 18.79 | 10.2%    |

- (1) Average supply cost includes purchased power and fuel costs.

Generation's supply mix changed as a result of:

- o increased nuclear generation due to a lower number of refueling and unplanned outages during 2003 compared to 2002,
- o increased fossil generation due to the effect of the Exelon New England plants acquired in November 2002, which in total account for an increase of 1,498 GWhs, and
- o increased quantity of purchased power at higher prices to serve expected affiliate load obligations. In addition, Generation entered into a new purchase power agreement with AmerGen in the second quarter of 2003. As a result, 1,258 GWhs were purchased from Oyster Creek nuclear facility in the second quarter of 2003.

Purchased power increased \$95 million, or 14%, for the three months ended June 30, 2003 compared to the same period in 2002 due to a \$125 million increase related to higher market prices and the delay of Exelon New England commercial operations commencement dates. The increase in purchased power was partially offset by a \$32 million gain on mark-to-market hedging activity for the three months ended June 30, 2003 compared to a \$4 million gain in the same period in 2002.

Fuel expense increased \$124 million, or 55%, for the three months ended June 30, 2003 compared to the same period in 2002, as summarized below:

| (in millions)               | Three Months Ended June 30, |        | Variance | % Change |
|-----------------------------|-----------------------------|--------|----------|----------|
|                             | 2003                        | 2002   |          |          |
| Nuclear Generation (1)      | \$ 132                      | \$ 120 | \$ 12    | 10.0%    |
| Fossil and Hydro Generation | 216                         | 104    | 112      | 107.7%   |
| Total                       | \$ 348                      | \$ 224 | \$ 124   | 55.4%    |

- (1) Excluding AmerGen

This increase is primarily due to a \$92 million increase in fossil fuel generation resulting from the acquisition of plant assets in 2002. In addition, fuel expense increased \$10 million due to additional nuclear fuel amortization resulting from under performing fuel at the Quad Cities Unit 1, which was completely replaced in May 2003.

Generation's financial results are greatly dependent on the performance of its nuclear units, including Generation's ability to maintain stable cost levels and high nuclear capacity factors. Problems that may occur at nuclear facilities that result in increased costs include accelerated replacement of suspect fuel assemblies, generation reductions to make repairs and mid-cycle outages. For example, in the second quarter of 2003, the Quad Cities Unit 1 required a significant repair and is unable to operate above an 85% capacity factor until the Nuclear Regulatory Commission (NRC) inspects and approves the maintenance work. Although this individual matter did not result in a significant decrease in operating income, this type of reduction in operational capacity can adversely affect Generation's financial results. Generation anticipates NRC approval of the maintenance work and to return the unit to its normal operating capacity in the near future.

#### Operating and Maintenance

O&M expense increased \$40 million, or 10%, for the three months ended June 30, 2003 compared to the same period in 2002. The increase in O&M expense was primarily attributable to \$46 million of accretion expense related to SFAS No. 143, which includes \$39 million of accretion of the asset retirement obligation and \$7 million to adjust the earnings impact of certain of the nuclear decommissioning revenues earned from ComEd and PECO, nuclear decommissioning trust fund investment income, income taxes incurred on nuclear decommissioning trust fund activities, accretion of the asset retirement obligation and depreciation of the asset retirement cost asset to zero, \$8 million of additional employee payroll and benefits costs, and \$19 million of additional expenses due to asset acquisitions made after the second quarter of 2002. Also, Generation recorded an impairment charge of \$5 million in 2003 related to the pending retirement of Mystic Station Units 4, 5, and 6. This increase was partially offset by \$21 million of lower nuclear refueling outage costs, including \$17 million for Generation's ownership in Salem, which is operated by the co-owner, and other nonrecurring charges in 2002. For a further discussion of SFAS No. 143 see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements.

|   | Three Months Ended June 30, |          |
|---|-----------------------------|----------|
|   | 2003                        | 2002     |
| Nuclear fleet capacity factor (1)                             | 94.0%                       | 92.1%    |
| Nuclear fleet production cost per Mwh (1)                     | \$ 12.08                    | \$ 12.54 |
| Average purchased power cost for wholesale operations per MWh | \$ 43.15                    | \$ 39.96 |

(1) Including AmerGen and excluding Salem.

The higher nuclear capacity factor and decreased nuclear production costs are primarily due to 20 fewer planned refueling outage days, resulting in a \$4 million decrease in outage costs, in the three months ended June 30, 2003 as compared to the same period in 2002. Additionally, the three months ended June 30, 2003 included nine unplanned outages compared to eight unplanned outages during the same period in 2002.

#### Depreciation and Amortization

Depreciation and amortization expense decreased \$19 million, or 29%, for the three months ended June 30, 2003 compared to the same period in 2002. The decrease was primarily attributable to a \$31 million reduction in decommissioning expense as these costs are included in operating and maintenance expense after the adoption of SFAS No. 143, and a \$3 million decrease due to life extensions of asset additions in 2002, partially offset by \$4 million of additional depreciation expense on capital additions placed in service after the second quarter of 2002, \$7 million related to plant acquisitions made after the second quarter of 2002, and \$1

million of depreciation for the ARC asset related to SFAS No. 143. For a further discussion of SFAS No. 143 see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements.

#### Taxes Other Than Income

Taxes other than income decreased \$1 million, or 2%, for the three months ended June 30, 2003 compared to the same period in 2002 primarily due to a \$1 million decrease in property taxes.

#### Interest Expense

Interest expense increased \$9 million, or 82%, for the three months ended June 30, 2003 compared to the same period in 2002. The increase was primarily due to a \$7 million decrease in capitalized interest, \$2 million of interest expense on the \$536 million note payable issued to Sithe in November 2002 and \$2 million of interest expense on the long-term debt obtained as a part of the Sithe New England asset acquisition. This increase is partially offset by a \$2 million decrease in interest on Generation's spent fuel obligation to the Department of Energy due to lower interest rates.

#### Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased \$9 million, or 100%, for the three months ended June 30, 2003 compared to the same period in 2002. The increase was due to a \$18 million increase in Generation's equity earnings of AmerGen. AmerGen's earnings were primarily affected by increased power sales, reduced outage costs, and favorable impacts of SFAS 143. The increase was partially offset by a \$9 million decrease in Generation's equity earnings of Sithe. Sithe's earnings were primarily affected by Generation's purchase of Sithe New England's assets in November 2002 and unfavorable mark-to-market losses for the period at Sithe.

#### Other, Net

Other, net increased \$10 million, or 42%, for the three months ended June 30, 2003 compared to the same period in 2002. The increase is primarily due to higher net realized gains and investment income related to the nuclear decommissioning trust funds. These net realized gains and investment income are almost entirely offset with accretion expense in 2003, which is included in operating and maintenance expense.

#### Income Taxes

The effective income tax rate was 39.2% for the three months ended June 30, 2003 compared to 37.7% for the same period in 2002. This increase was primarily attributable to an increase in taxes related to the nuclear decommissioning trust funds.

## Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

## Significant Operating Trends - Generation

|  | Six Months Ended June 30, |          | Variance | % Change |
|--|---------------------------|----------|----------|----------|
|  | 2003                      | 2002     |          |          |
| OPERATING REVENUES   | \$ 3,765                  | \$ 3,020 | \$ 745   | 24.7%    |
| OPERATING EXPENSES   |                           |          |          |          |
| Purchased power  | 1,642                     | 1,323    | 319      | 24.1%    |
| Fuel   | 706                       | 433      | 273      | 63.0%    |
| Operating and maintenance  | 943                       | 844      | 99       | 11.7%    |
| Depreciation and amortization  | 91                        | 128      | (37)     | (28.9%)  |
| Taxes other than income  | 88                        | 90       | (2)      | (2.2%)   |
| Total operating expenses   | 3,470                     | 2,818    | 652      | 23.1%    |
| OPERATING INCOME   | 295                       | 202      | 93       | 46.0%    |
| OTHER INCOME AND DEDUCTIONS  |                           |          |          |          |
| Interest expense   | (38)                      | (28)     | (10)     | (35.7%)  |
| Equity in earnings of unconsolidated affiliates                                      | 37                        | 32       | 5        | 15.6%    |
| Other, net   | (134)                     | 40       | (174)    | n.m.     |
| Total other income and deductions  | (135)                     | 44       | (179)    | n.m.     |
| INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES | 160                       | 246      | (86)     | (35.0%)  |
| INCOME TAXES   | 71                        | 96       | (25)     | (26.0%)  |
| INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES                  | 89                        | 150      | (61)     | (40.7%)  |
| CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF INCOME TAXES           | 108                       | 13       | 95       | n.m.     |
| NET INCOME   | \$ 197                    | \$ 163   | \$ 34    | 20.9%    |

n.m. - not meaningful

## Net Income

Generation's net income increased by \$34 million, or 21%, for the six months ended June 30, 2003 compared to the same period in 2002. Income before cumulative effect of changes in accounting principles decreased by \$61 million for the six months ended June 30, 2003 compared to the same period in 2002 primarily due to the after-tax impairment charge for Generation's equity investment in Sithe of \$130 million, partially offset by higher revenue due to increased market electric sales.

Operating Revenues

Revenues increased by \$745 million, or 25% for the six months ended June 30, 2003 compared to the same period in 2002. For the six months ended June 30, 2003 and 2002, Generation's sales were as follows:

| Revenue (in millions)                     | Six Months Ended June 30, |          | Variance | % Change |
|---|---------------------------|----------|----------|----------|
|   | 2003                      | 2002     |          |          |
| Energy Delivery and Exelon Energy Company | \$ 1,842                  | \$ 1,839 | \$ 3     | 0.2%     |
| Market Sales                              | 1,863                     | 1,175    | 688      | 58.6%    |
| Total Energy Sales Revenue                | 3,705                     | 3,014    | 691      | 22.9%    |
| Trading Portfolio                         | (2)                       | (15)     | 13       | (86.7%)  |
| Other Revenue                             | 62                        | 21       | 41       | 195.2%   |
| Total Revenue                             | \$ 3,765                  | \$ 3,020 | \$ 745   | 24.7%    |

n.m. - not meaningful

| Sales (in GWhs)                           | Six Months Ended June 30, |        | Variance | % Change |
|---|---------------------------|--------|----------|----------|
|   | 2003                      | 2002   |          |          |
| Energy Delivery and Exelon Energy Company | 57,463                    | 58,649 | (1,186)  | (2.0%)   |
| Market Sales                              | 51,264                    | 39,913 | 11,351   | 28.4%    |
| Total Sales                               | 108,727                   | 98,562 | 10,165   | 10.3%    |

Trading volume of 17,446 GWhs and 22,805 GWhs for the six months ended June 30, 2003 and 2002, respectively, is not included in the table above. The decrease in trading volume is a result of reduced volumetric and VAR trading limits in 2003, which are set by the Risk Management Committee and approved by the Board of Directors.

Generation's average revenue (per MWh) on energy sales for the three months ended June 30, 2003 and 2002 is as follows:

| (\$/MWh)                                  | Six Months Ended June 30, |          | % Change |
|---|---------------------------|----------|----------|
|   | 2003                      | 2002     |          |
| Average Revenue                           |                           |          |          |
| Energy Delivery and Exelon Energy Company | \$ 32.06                  | \$ 31.35 | 2.3%     |
| Market Sales                              | 35.94                     | 29.44    | 22.1%    |
| Total - excluding the trading portfolio   | 33.89                     | 30.58    | 10.8%    |

Energy Delivery and Exelon Energy Company. Sales to Energy Delivery increased by \$22 million as a result of increased prices per MWh for supply agreements with ComEd and PECO, partially offset by a net overall reduction in volume demand resulting from unfavorable weather and customers choosing alternative suppliers under the customer choice program. Sales to Exelon Energy Company decreased by \$19 million for the six months ended June 30, 2003 compared to the same period in 2002 primarily due to the discontinuance of Exelon Energy Company operations in the PJM region.

Market Sales. The increase of \$688 million resulted primarily from increased production from generating assets acquired during 2002, as well as lower load requirements to affiliates and higher wholesale market prices, primarily attributable to higher fossil fuel prices.

Trading Revenues. Trading activity reduced revenue by \$2 million during the six months ended June 30, 2003 compared to \$15 million during the same period in 2002 due to lower trading activity.

Other Revenues. Other revenues in the six months ended June 30, 2003 included \$31 million from ComEd related to nuclear decommissioning cost recoveries associated with the adoption of SFAS No. 143 that was not included in revenues in 2002 and \$27 million in gas sales.

Purchased Power and Fuel

Generation's supply source of its sales and average supply costs are summarized below:

| Supply of Sales (in GWhs)             | Six Months Ended June 30, |               | Variance      | % Change     |
|---------------------------------------|---------------------------|---------------|---------------|--------------|
|                                       | 2003                      | 2002          |               |              |
| Purchases - non-trading portfolio (1) | 39,373                    | 36,071        | 3,302         | 9.2%         |
| Nuclear Generation (2)                | 58,949                    | 56,309        | 2,640         | 4.7%         |
| Fossil and Hydro Generation           | 10,405                    | 6,182         | 4,223         | 68.3%        |
| <b>Total Supply</b>                   | <b>108,727</b>            | <b>98,562</b> | <b>10,165</b> | <b>10.3%</b> |

(1) Including purchased power agreements with AmerGen.

(2) Excluding AmerGen.

| (\$/Mwh)  | Six Months Ended June 30, |          | % Change |
|---|---------------------------|----------|----------|
|   | 2003                      | 2002     |          |
| Average Supply Cost (1) - excluding trading portfolio | \$ 20.58                  | \$ 17.78 | 15.7%    |

(1) Average supply cost includes purchased power and fuel costs.

Generation's supply mix changed as a result of:

- o increased nuclear generation due to a lower number of refueling and unplanned outages during 2003 compared to 2002,
- o increased fossil generation due to the effect of the acquisition of two generating plants in Texas in April 2002 and the Exelon New England plants acquired in November 2002, which in total account for an increase of 2,995 GWhs, and
- o increased quantity of purchased power at higher prices. In addition, Generation entered into a new purchase power agreement with AmerGen in the second quarter of 2003. As a result, 1,258 GWhs were purchased from Oyster Creek nuclear facility in the second quarter of 2003.

Purchased power increased \$319 million, or 24%, for the six months ended June 30, 2003 compared to the same period in 2002 due to \$185 million related to higher market prices and the delay of Exelon New England commercial operations commencement dates. The increase in purchased power also reflects mark-to-market hedging gains of \$1 million for the six months ended June 30, 2003 compared to \$10 million in the same period in 2002.

Fuel expense increased \$273 million, or 63%, for the six months ended June 30, 2003 compared to the same period in 2002, as summarized below:

| (in millions)               | Six Months Ended June 30, |               | Variance      | % Change     |
|-----------------------------|---------------------------|---------------|---------------|--------------|
|                             | 2003                      | 2002          |               |              |
| Nuclear Generation (1)      | \$ 260                    | \$ 237        | \$ 23         | 9.7%         |
| Fossil and Hydro Generation | 446                       | 196           | 250           | 127.6%       |
| <b>Total</b>                | <b>\$ 706</b>             | <b>\$ 433</b> | <b>\$ 273</b> | <b>63.0%</b> |

(1) Excluding AmerGen



This increase is primarily due to the increase in fossil fuel generated energy required to meet increased market demand for energy and operation of new base load plants in New England as well as demand in all regions during the first quarter of 2003. Fossil and other fuel expense increased \$267 million, as a result of operating the generation plants acquired after the second quarter of 2002. Increased fossil fuel expense includes \$149 million related to increased market sales from the generating plants acquired after the second quarter of 2002. Nuclear fuel expense increased \$23 million, including \$7 million due to higher nuclear generation and \$16 million due to additional fuel amortization resulting from under performing fuel at the Quad Cities Unit 1, which was completely replaced in May 2003. These increases in fuel expense were partially offset by a \$4 million loss on emissions allowance sales recorded in 2002.

#### Operating and Maintenance

O&M expense increased \$99 million, or 12%, for the six months ended June 30, 2003 compared to the same period in 2002. The increase in O&M expense was primarily attributable to \$103 million of accretion expense related to SFAS No. 143, which includes \$77 million of accretion of the asset retirement obligation and \$26 million to adjust the earnings impact of certain of the nuclear decommissioning revenues earned from ComEd and PECO, nuclear decommissioning trust fund investment income, income taxes incurred on nuclear decommissioning trust fund activities, accretion of the asset retirement obligation and depreciation of the asset retirement cost asset to zero, \$36 million of additional employee payroll and benefits costs, and \$38 million of additional expenses due to asset acquisitions made after the second quarter of 2002. Also, Generation recorded an impairment charge of \$5 million in 2003 related to the pending retirement of Mystic Station Units 4, 5, and 6. This increase was partially offset by \$53 million of lower nuclear refueling outage costs, including \$17 million for Generation's ownership interest in Salem, which is operated by the co-owner, a one-time executive severance expense recorded in 2002 of \$19 million, an \$8 million reduction in worker's compensation expense and other non-recurring items. For a further discussion of SFAS No. 143 see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements.

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2003                      | 2002     |
| Nuclear fleet capacity factor (1)                             | 94.2%                     | 91.2%    |
| Nuclear fleet production cost per Mwh (1)                     | \$ 12.40                  | \$ 13.38 |
| Average purchased power cost for wholesale operations per MWh | \$ 41.71                  | \$ 36.76 |

(1) Including AmerGen and excluding Salem.

The higher nuclear capacity factor and decreased nuclear production costs are primarily due to 50 fewer planned refueling outage days, resulting in a \$36 million decrease in outage costs, in the six months ended June 30, 2003 as compared to the same period in 2002. Additionally, the six months ended June 30, 2003 included 11 unplanned outages compared to 13 unplanned outages during the same period in 2002.

#### Depreciation and Amortization

Depreciation and amortization expense decreased \$37 million, or 29%, for the six months ended June 30, 2003 compared to the same period in 2002. The decrease was primarily attributable to a \$64 million reduction in decommissioning expense as these costs are included in operating and maintenance expense after the adoption of SFAS No. 143 and a \$10 million decrease due to life extensions of asset additions in 2002. The decrease was partially offset by \$10 million of additional depreciation expense on capital additions placed in service after the

second quarter of 2002, \$16 million of expense related to plant acquisitions made after the second quarter of 2002, and \$2 million of depreciation for the ARC asset related to SFAS No. 143. For a further discussion of SFAS No. 143 see Note 2 of the Condensed Combined Notes to Consolidated Financial Statements.

#### Taxes Other Than Income

Taxes other than income decreased \$2 million, or 2%, for the six months ended June 30, 2003 compared to the same period in 2002 primarily due to a \$4 million decrease in payroll taxes partially offset by a \$2 million increase in property taxes related to asset acquisitions made after the second quarter of 2002.

#### Interest Expense

Interest expense increased \$10 million, or 36%, for the six months ended June 30, 2003 compared to the same period in 2002. The increase was primarily due to a \$7 million decrease in capitalized interest. In addition, the increase was due to \$5 million of additional interest expense on the \$536 million note payable issued to Sithe in November 2002 and \$2 million of interest expense on the long term debt obtained as a part of the Sithe New England asset acquisition. This increase is partially offset by a \$2 million decrease in interest on Generation's obligation to the Department of Energy due to lower interest rates.

#### Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased \$5 million, or 16%, for the six months ended June 30, 2003 compared to the same period in 2002. This increase was due to a \$20 million increase in Generation's equity earnings in AmerGen. AmerGen's earnings were primarily affected by increased power sales, reduced outage costs, and lower accretion expense resulting from the adoption of SFAS No. 143. The increase was partially offset by a \$15 million decrease in Generation's equity earnings of Sithe. Sithe's earnings were primarily affected by Generation's purchase of Sithe New England's assets and unfavorable mark-to-market losses for the period at Sithe.

#### Other, Net

Other, net decreased \$174 million for the six months ended June 30, 2003 compared to the same period in 2002. This decrease is primarily a result of the \$200 million impairment charge related to Generation's equity investment in Sithe due to an other than temporary decline in value. This charge was partially offset by \$26 million of higher net realized gains and investment income related to the decommissioning trust funds. These net realized gains and investment income are almost entirely offset with accretion expense in 2003, which is included in operating and maintenance expense.

#### Income Taxes

The effective income tax rate was 44.2% for the six months ended June 30, 2003 compared to 39.0% for the same period in 2002. The increase was primarily attributed to the impact of the impairment of Generation's investment in Sithe as well as the increase in taxes related to the nuclear decommissioning trust funds.

Due to revenue needs in the states in which Generation operates, various state income tax and fee increases have been proposed or are being contemplated. If these changes are enacted, they could increase Generation's state income tax expense. At this time, however, Generation cannot predict whether legislation or regulation will be introduced, the form of any legislation or regulation, whether any such legislation or regulation will be passed by the state legislatures or regulatory bodies, and, if enacted, whether any such legislation or regulation would be effective retroactively or prospectively. As a result, Generation cannot currently estimate the effect of potential changes in tax law or regulation.

#### Cumulative Effect of Changes in Accounting Principles

On January 1, 2003, Generation adopted SFAS No. 143 resulting in a benefit of \$108 million, net of income taxes of \$70 million.

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

#### LIQUIDITY AND CAPITAL RESOURCES

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financings including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Generation no longer has access to external financing sources at reasonable terms, Generation has access to a revolving credit facility. See the Credit Issues section of Liquidity and Capital Resources for further discussion. Capital resources are used primarily to fund Generation's capital requirements, including construction, investments in new and existing ventures, repayments of maturing debt and the payment of dividends. Any future acquisitions could require external financing or borrowings or capital contributions from Exelon.

In the second quarter of 2003, Generation progressed in its plans to implement the new business model referred to as The Exelon Way. The Exelon Way is focused on improving operating cash flows while meeting service and financial commitments through improved integration of operations and consolidation of support functions. As part of the implementation of The Exelon Way, Generation anticipates incurring expenses associated with the rationalization of certain business functions and employee separation costs. These expenses may be significant and are expected to be incurred during the remaining half of 2003 through 2005. However, these costs cannot be reasonably estimated at this time.

#### Cash Flows from Operating Activities

Cash flows provided by operations were \$539 million for the six months ended June 30, 2003, compared to \$519 million for the same period in 2002. The increase in cash flows from operating activities was primarily attributable to a \$114 million increase in working capital. Cash flows used in operating activities for collateral were \$136 million as of June 30, 2003,

compared to \$30 million for the same period in 2002. The decrease in cash flows from collateral activities of \$106 million was attributable to Generation exceeding its negotiated credit positions with counterparties. Cash flow used for collateral will depend upon future market prices for energy and to the extent forward energy deals are done under agreements with negotiated collateral provisions. When power prices return to previous levels or when Generation delivers the power under its forward contracts, the collateral would be returned to Generation with no impact on its results of operations. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Generation's affiliated companies, as well as settlements arising from Generation's trading activities. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs.

#### Cash Flows from Investing Activities

Cash flows used in investing activities were \$496 million for the six months ended June 30, 2003, compared to \$1,048 million for the same period in 2002. The decrease in cash flows used in investing activities was primarily attributable to a reduction in plant acquisition cost of \$443 million as a result of the acquisition of generating plants during the six months ended June 30, 2002, and \$86 million for liquidated damages received from Raytheon in 2003 (see Note 8 of the Condensed Combined Notes to Consolidated Financial Statements). Generation's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation's capital expenditures for 2003 reflect the construction of three Exelon New England generating facilities with projected capacity of 2,421 MWS of energy and additions to and upgrades of existing facilities (including nuclear refueling outages) and nuclear fuel. During the six months ended June 30, 2003, Generation received \$86 million of liquidated damages from Raytheon as a result of Raytheon not meeting the expected completion date and certain contractual performance criteria in connection with Raytheon's construction of the Mystic 8 and 9 and Fore River nuclear generating plants. In February 2002, Generation entered into an agreement to loan AmerGen up to \$75 million at an interest rate of one-month LIBOR plus 2.25%. In July 2002, the loan agreement and the loan were increased to \$100 million and the maturity date was extended to July 1, 2003. As of June 30, 2003, AmerGen has repaid the balance of the loan. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

#### Cash Flows from Financing Activities

Cash flows used in financing activities were \$27 million for the six months ended June 30, 2003, compared to cash flows provided by financing activities of \$329 million for the same period in 2002. The decrease in cash provided by financing was primarily due to a \$273 million decrease in cash receipts from affiliates, \$45 million dividend to Exelon Corporation, the \$210 million partial payment of the acquisition note payable to Sithe, and a \$38 million decrease in restricted cash as a result of liquidated damages received from Raytheon in 2003. The decrease in cash provided by financing activities was partially offset by \$211 million of borrowings under the revolving credit facility. See Note 9 of the Condensed Combined Notes to Consolidated Financial Statements for further discussion of Generation's debt financing activities.

## Credit Issues

Generation meets its short-term liquidity requirements primarily through intercompany borrowings from Exelon, the issuance of commercial paper and participation in the intercompany money pool. Generation, along with Exelon, ComEd and PECO, participates in a \$1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility became effective on November 22, 2002 and includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of June 30, 2003, the sublimit for Generation was zero. The credit facility is expected to be used by Generation principally to support its commercial paper program.

The credit facility requires Generation to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes certain changes in working capital, revenues from Exelon New England and interest on the debt of Exelon New England's project subsidiaries. Generation's threshold for the ratio reflected in the credit agreement cannot be less than 3.25 to 1 for the twelve-month period ended June 30, 2003. At June 30, 2003, Generation was in compliance with the credit agreement thresholds.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by the Exelon corporate treasurer. ComEd's subsidiary, Commonwealth Edison Company of Indiana, Inc., PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon Corporate and ComEd as lenders. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. During the six months ended June 30, 2003, Generation had various borrowings from ComEd under the money pool. The maximum amount of loans outstanding at any time during the quarter was \$342 million. As of June 30, 2003, Generation owed ComEd \$165 million on these loans. For the six months ended June 30, 2003, Generation paid \$1 million in interest to ComEd.

EBG, an indirect subsidiary of Generation, has approximately \$1.1 billion of debt outstanding under the EBG Facility at June 30, 2003. The EBG Facility was entered into primarily to finance the construction of the Mystic 8 and 9 and Fore River generating units. The EBG Facility requires that all of the projects achieve "Project Completion," as defined in the EBG Facility, by June 12, 2003. On June 11, 2003, EBG negotiated an extension of the Project Completion date to July 11, 2003. On July 3, 2003, the lenders under the EBG Facility and EBG executed a letter agreement as a result of which the lenders are precluded during the period July 11, 2003 through August 29, 2003 from exercising any remedies resulting from the failure of all of the projects to achieve Project Completion. At that time, EBG stated that it would continue to monitor the projects, assess all of its options relating to the projects, and continue discussions with the lenders. Mystic 8 and 9 are in commercial operation, although construction has not

progressed to the point of Project Completion. Construction of Fore River is substantially complete and the unit is currently undergoing testing. EBG does not anticipate that the projects will achieve Project Completion by August 29, 2003. The EBG Facility is non-recourse to Exelon and Generation and an event of default under the EBG Facility does not constitute an event of default under any other debt instruments of Exelon or its subsidiaries.

As a result of Exelon's continuing evaluation of the projects and discussions with the lenders in July 2003, Exelon has commenced the process of an orderly transition out of the ownership of EBG and the projects. The transition will take place in a manner that complies with applicable regulatory requirements. For a period of time, Exelon expects to continue to provide administrative and operational services to EBG in its operation of the projects. Exelon informed the lenders of Exelon's decision to exit and that it will not provide additional funding to the projects beyond its existing contractual obligations. Exelon cannot predict the timing of the transition.

Exelon expects Generation will incur an impairment of its EBG related assets, which, in aggregate, could reach approximately \$550 million after income taxes.

The debt outstanding under the EBG Facility of approximately \$1.1 billion at June 30, 2003 is reflected in Generation's Consolidated Balance Sheet as a current liability.

On June 13, 2003, Generation entered into a \$550 million revolving credit facility. Generation used the facility to make the first payment to Sithe relating to the \$536 million note that was used to purchase the EBG facilities. This note was restructured in June 2003 to provide for a payment of \$210 million of the principal on June 16, 2003 and payment of the remaining principal on the earlier of December 1, 2003 or change of control.

Generation's access to the capital markets and its financing costs in those markets are dependent on its securities ratings. None of Generation's borrowings is subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities. From time to time Generation enters into energy commodity and other derivative transactions that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis.

Under PUHCA, Generation can only pay dividends from undistributed or current earnings. Generation is precluded from lending or extending credit or indemnity to Exelon. At June 30, 2003, Generation had undistributed earnings of \$1.1 billion.

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

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. Generation's contractual obligations and commercial commitments as of June 30, 2003 were materially unchanged from the amounts set forth in the 2002 Form 10-K except for the following:

- o Generation entered into a PPA dated June 26, 2003 with AmerGen. Under the PPA, Generation has agreed to purchase 100% of energy generated by Oyster Creek through April 9, 2009. See Note 8 of the Condensed Combined Notes to Consolidated Financial Statements for commercial commitments tables representing Generation's commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure their obligations.
- o On May 29, 2003, Exelon Fossil Holdings, Inc., a wholly-owned subsidiary of Generation, issued an irrevocable call notice for the 35.2% interest in Sithe owned by Apollo Energy, LLC and the 14.9% interest owned by subsidiaries of Marubeni Corporation. The total call price was based on the terms of the existing Put and Call Agreement (PCA) among the parties and approximated \$650 million. The transfer of ownership requires various regulatory approvals including FERC, the state environmental agency in New Jersey, and expiration of the Hart Scott Rodino waiting period.

Under the terms of the PCA, the call must be funded within six months of the call notice being issued. Additionally, because the Federal Power Act restricts Exelon's ownership of 50% or more of Qualifying Facilities (QFs), the QFs owned by Sithe must be sold or restructured before closing to preserve their QF status. Despite the issuance of the call notice, Generation continues to pursue options to sell its investment in Sithe in its entirety.

- o In June 2003, Generation entered an agreement with USEC Inc. to purchase approximately \$700 million of nuclear fuel from 2005 through 2010.

As discussed in Note 2 of the Condensed Combined Notes to Consolidated Financial Statements, it is reasonably possible that Generation will consolidate Sithe as of July 1, 2003 pursuant to FIN No. 46, "Consolidation of Variable Interest Entities."

At December 31, 2002, Sithe had total assets of \$2.6 billion (including the \$534 million note from Generation which has subsequently been reduced to \$326 million) and total liabilities of \$1.8 billion. Of the total liabilities, Sithe had \$1.3 billion of debt which included \$624 million of subsidiary debt incurred primarily to finance the construction of six new generating facilities, \$461 million of subordinated debt, \$103 million of line of credit borrowings, \$43 million of current portion of long-term debt and capital leases, \$30 million of capital leases, and excludes \$453 million of non-recourse debt associated with Sithe's equity investments. For the year ended December 31, 2002, Sithe had revenues of approximately \$1.0 billion and incurred a net

loss of approximately \$348 million. Exelon contractually does not own any interest in Sithe International, a subsidiary of Sithe. As such, a portion of Sithe's net assets and results of operations would be eliminated from Generation's balance sheet and results of operations through a minority interest.

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

#### Commodity Price Risk Generation

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

#### Normal Operations and Hedging Activities

Electricity available from Generation's owned or contracted generation supply in excess of its obligations to customers, including Energy Delivery's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge its anticipated exposures. The maximum length of time over which cash flows related to energy commodities are currently being hedged is four years. Generation has an estimated 91% hedge ratio in 2003 for its energy marketing portfolio. This hedge ratio represents the percentage of Generation's forecasted aggregate annual economic generation supply that is committed to firm sales, including sales to ComEd and PECO's retail load. ComEd and PECO's retail load assumptions are based on forecasted average demand. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, and energy market option volatility and actual loads. During peak periods, the amount hedged declines to meet the commitment to ComEd and PECO. Market price risk exposure is the risk of a change in the value of unhedged positions. Absent any opportunistic efforts to mitigate market price exposure, the estimated market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity is an approximately \$37 million decrease in net income, or approximately \$0.11 per share. This sensitivity assumes a consistent hedge ratio and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.



## Proprietary Trading Activities

Generation uses financial contracts for proprietary trading purposes. Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio and represent a very small portion of its overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than 1% of Generation's owned and contracted supply of electricity. The trading portfolio is subject to stringent risk management limits and policies, including volume, stop-loss and value-at-risk limits.

Generation's energy contracts are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). Most non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133 discussed in the Critical Accounting Estimates section of Management's Discussion and Analysis of Financial Condition and Result of Operations of the 2002 Form 10-K. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in Other Comprehensive Income (OCI), and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts are recognized in earnings on a current basis.

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

The following tables describe the drivers of Generation's energy trading and marketing business and gross margin included in the income statement for the three and six months ended June 30, 2003. Normal operations and hedging activities represent the marketing of electricity available from Generation's owned or contracted generation, including ComEd and PECO's retail load, sold into the wholesale market. As the information in these tables highlights, mark-to-market activities represent a small portion of the overall gross margin for Generation. Accrual activities, including normal purchases and sales, account for the majority of the gross margin. The mark-to-market activities reported here are those relating to changes in fair value due to external movement in prices. Further delineation of gross margin by the type of accounting treatment typically afforded each type of activity is also presented (i.e., mark-to-market vs. accrual accounting treatment).

|   | Three Months Ended June 30, 2003                |                        |            |
|---|---|------------------------|------------|
|   | Normal Operations and<br>Hedging Activities (a) | Proprietary<br>Trading | Total      |
| -----   |   |                        |            |
| Mark-to-market activities:  |   |                        |            |
| -----   |   |                        |            |
| Unrealized mark-to-market gain/(loss)                             |   |                        |            |
| Origination unrealized gain/(loss) at inception                   | \$ --   | \$ --                  | \$ --      |
| Changes in fair value prior to settlements                        | 109   | (1)                    | 108        |
| Changes in valuation techniques and assumptions                   | --  | --                     | --         |
| Reclassification to realized at settlement of contracts           | (77)  | (1)                    | (78)       |
| -----   |   |                        |            |
| Total change in unrealized fair value                             | 32  | (2)                    | 30         |
| Realized net settlement of transactions subject to mark-to-market | 77  | 1                      | 78         |
| -----   |   |                        |            |
| Total mark-to-market activities gross margin                      | \$ 109  | \$ (1)                 | \$ 108     |
| -----   |   |                        |            |
| Accrual activities:   |   |                        |            |
| -----   |   |                        |            |
| Accrual activities revenue  | \$ 1,107  | \$ --                  | \$ 1,107   |
| Hedge gains/(losses) reclassified from OCI                        | 616   | --                     | 616        |
| -----   |   |                        |            |
| Total revenue - accrual activities                                | 1,723   | --                     | 1,723      |
| -----   |   |                        |            |
| Purchased power and fuel  | 388   | --                     | 388        |
| Hedges of purchased power and fuel reclassified from OCI          | 705   | --                     | 705        |
| -----   |   |                        |            |
| Total purchased power and fuel                                    | 1,093   | --                     | 1,093      |
| -----   |   |                        |            |
| Total accrual activities gross margin                             | 630   | --                     | 630        |
| -----   |   |                        |            |
| Total gross margin  | \$ 739  | \$ (1)                 | \$ 738 (b) |
| =====   |   |                        |            |

- (a) Normal Operations and Hedging Activities only include derivative contracts Generation enters into to hedge anticipated exposures related to its owned and contracted generation supply, but excludes its owned and contracted generating assets.
- (b) Total Gross Margin represents revenue, net of purchased power and fuel expense for Generation.

Six Months Ended June 30, 2003

|   | Normal Operations and<br>Hedging Activities (a) | Proprietary<br>Trading | Total        |
|---|---|------------------------|--------------|
| -----   |   |                        |              |
| Mark-to-market activities:  |   |                        |              |
| -----   |   |                        |              |
| Unrealized mark-to-market gain/(loss)                             |   |                        |              |
| Origination unrealized gain/(loss) at inception                   | \$ --   | \$ --                  | \$ --        |
| Changes in fair value prior to settlements                        | 135   | (3)                    | 132          |
| Changes in valuation techniques and assumptions                   | --  | --                     | --           |
| Reclassification to realized at settlement of contracts           | (134)   | (1)                    | (135)        |
| -----   |   |                        |              |
| Total change in unrealized fair value                             | 1   | (4)                    | (3)          |
| Realized net settlement of transactions subject to mark-to-market | 134   | 1                      | 135          |
| -----   |   |                        |              |
| Total mark-to-market activities gross margin                      | \$ 135  | \$ (3)                 | \$ 132       |
| -----   |   |                        |              |
| Accrual activities:   |   |                        |              |
| -----   |   |                        |              |
| Accrual activities revenue  | \$ 2,459  | \$ --                  | \$ 2,459     |
| Hedge gains/(losses) reclassified from OCI                        | 1,014   | --                     | 1,014        |
| -----   |   |                        |              |
| Total revenue - accrual activities                                | 3,473   | --                     | 3,473        |
| -----   |   |                        |              |
| Purchased power and fuel  | 980   | --                     | 980          |
| Hedges of purchased power and fuel reclassified from OCI          | 1,208   | --                     | 1,208        |
| -----   |   |                        |              |
| Total purchased power and fuel                                    | 2,188   | --                     | 2,188        |
| -----   |   |                        |              |
| Total accrual activities gross margin                             | 1,285   | --                     | 1,285        |
| -----   |   |                        |              |
| Total gross margin  | \$ 1,420  | \$ (3)                 | \$ 1,417 (b) |
| =====   |   |                        |              |

(a) Normal Operations and Hedging Activities only include derivative contracts Generation enters into to hedge anticipated exposures related to its owned and contracted generation supply, but excludes its owned and contracted generating assets.

(b) Total Gross Margin represents revenue, net of purchased power and fuel expense for Generation.

The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2003 to June 30, 2003. It indicates the drivers behind changes in the balance sheet amounts. This table will incorporate the mark-to-market activities that are immediately recorded in earnings, as shown in the previous table, as well as the settlements from OCI to earnings and changes in fair value for the hedging activities that are recorded in Accumulated Other Comprehensive Income on the June 30, 2003 Consolidated Balance Sheet.

|  | Normal Operations and<br>Hedging Activities | Proprietary<br>Trading | Total    |
|--|---|------------------------|----------|
| Total mark-to-market energy contract net assets<br>(liabilities) at January 1, 2003                    | \$ (168)                                    | \$ 5                   | \$ (163) |
| Total change in fair value for the six months ended June 30, 2003<br>of contracts recorded in earnings | 135   | (3)                    | 132      |
| Reclassification to realized at settlement of contracts recorded in earnings                           | (134)                                       | (1)                    | (135)    |
| Reclassification to realized at settlement from OCI  | 194   | --                     | 194      |
| Effective portion of changes in fair value - recorded in OCI   | (367)                                       | --                     | (367)    |
| Purchase/sale of existing contracts or portfolios subject to mark-to-market                            | --  | --                     | --       |
| Total mark-to-market energy contract net assets (liabilities)<br>at June 30, 2003                      | \$ (340)                                    | \$ 1                   | \$ (339) |

The following table details the balance sheet classification of the mark-to-market energy contract net assets recorded as of June 30, 2003:

|   | Normal Operations and<br>Hedging Activities | Proprietary<br>Trading | Total    |
|---|---|------------------------|----------|
| Current assets  | \$ 251                                      | \$ 2                   | \$ 253   |
| Noncurrent assets   | 68  | --                     | 68       |
| Total mark-to-market energy contract assets                   | 319   | 2                      | 321      |
| Current liabilities   | (490)                                       | --                     | (490)    |
| Noncurrent liabilities  | (169)                                       | (1)                    | (170)    |
| Total mark-to-market energy contract liabilities              | (659)                                       | (1)                    | (660)    |
| Total mark-to-market energy contract net assets (liabilities) | \$ (340)                                    | \$ 1                   | \$ (339) |

The majority of Generation's contracts are non-exchange traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, by region and by product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of June 30, 2003 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

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

|  | Maturities within |                 |                |               |               |                 |                  |
|--|-------------------|-----------------|----------------|---------------|---------------|-----------------|------------------|
|  | 2003              | 2004            | 2005           | 2006          | 2007          | 2008 and Beyond | Total Fair Value |
| Normal Operations, qualifying cash flow hedge contracts (1): |                   |                 |                |               |               |                 |                  |
| Prices provided by other external sources                    | \$ (190)          | \$ (150)        | \$ (11)        | \$ (7)        | \$ --         | \$ --           | \$ (358)         |
| <b>Total</b>   | <b>\$ (190)</b>   | <b>\$ (150)</b> | <b>\$ (11)</b> | <b>\$ (7)</b> | <b>\$ --</b>  | <b>\$ --</b>    | <b>\$ (358)</b>  |
| Normal Operations, other derivative contracts (2):           |                   |                 |                |               |               |                 |                  |
| Actively quoted prices                                       | \$ 18             | \$ 8            | \$ --          | \$ --         | \$ --         | \$ --           | \$ 26            |
| Prices provided by other external sources                    | 6                 | 16              | 5              | 4             | --            | --              | 31               |
| Prices based on model or other valuation methods             | 12                | (34)            | (5)            | (9)           | (3)           | --              | (39)             |
| <b>Total</b>   | <b>\$ 36</b>      | <b>\$ (10)</b>  | <b>\$ --</b>   | <b>\$ (5)</b> | <b>\$ (3)</b> | <b>\$ --</b>    | <b>\$ 18</b>     |
| Proprietary Trading, other derivative contracts (3):         |                   |                 |                |               |               |                 |                  |
| Actively quoted prices                                       | \$ 1              | \$ 2            | \$ --          | \$ --         | \$ --         | \$ --           | \$ 3             |
| Prices provided by other external sources                    | (1)               | (5)             | --             | --            | --            | --              | (6)              |
| Prices based on model or other valuation methods             | 3                 | 1               | --             | --            | --            | --              | 4                |
| <b>Total</b>   | <b>\$ 3</b>       | <b>\$ (2)</b>   | <b>\$ --</b>   | <b>\$ --</b>  | <b>\$ --</b>  | <b>\$ --</b>    | <b>\$ 1</b>      |
| Average tenor of proprietary trading portfolio (4)           |                   |                 |                |               |               |                 | 1.5 years        |

- (1) Mark-to-market gains and losses on contracts that qualify as cash flow hedges are recorded in other comprehensive income.
- (2) Mark-to-market gains and losses on other non-trading derivative contracts that do not qualify as cash flow hedges are recorded in earnings.
- (3) Mark-to-market gains and losses on trading contracts are recorded in earnings.
- (4) Following the recommendations of the Committee of Chief Risk Officers, the average tenor of the proprietary trading portfolio measures the average time to collect value for that portfolio. Generation measures the tenor by separating positive and negative mark-to-market values in its proprietary trading portfolio, estimating the mid-point in years for each and then reporting the highest of the two mid-points calculated. In the event that this methodology resulted in significantly different absolute values of the positive and negative cash flow streams, Generation would use the mid-point of the portfolio with the largest cash flow stream as the tenor.

The table below provides details of effective cash flow hedges under SFAS No. 133 included in the balance sheet as of June 30, 2003. The data in the table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place, however, given that under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of Accumulated Other Comprehensive Income on the Consolidated Balance Sheets related to cash flow hedges for the six months ended June 30, 2003, providing insight into the drivers of the changes (new hedges entered into during the period and changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest rate hedging activities.

|  | Total Cash Flow Hedge Other Comprehensive Income Activity,<br>Net of Income Tax |                                       |                           |
|--|---|---------------------------------------|---------------------------|
|  | Normal Operations and<br>Hedging Activities                                     | Interest Rate and<br>Other Hedges (1) | Total Cash<br>Flow Hedges |
| Accumulated OCI, January 1, 2003                           | \$ (114)  | \$ (5)                                | \$ (119)                  |
| Changes in fair value                                      | (223)   | (12)                                  | (235)                     |
| Reclassifications from OCI to net income                   | 119   | --                                    | 119                       |
| -----  |   |                                       |                           |
| Accumulated OCI derivative gain/(loss)<br>at June 30, 2003 | \$ (218)  | \$ (17)                               | \$ (235)                  |
| =====  |   |                                       |                           |

(1) Includes interest rate hedges at Generation.

Generation uses a Value-at-Risk (VaR) model to assess the market risk associated with financial derivative instruments entered into for proprietary trading purposes. The measured VaR represents an estimate of the potential change in value of Generation's proprietary trading portfolio.

The VaR estimate includes a number of assumptions about current market prices, estimates of volatility and correlations between market factors. These estimates, however, are not necessarily indicative of actual results, which may differ because actual market rate fluctuations may differ from forecasted fluctuations and because the portfolio may change over the holding period.

Generation estimates VaR using a model based on the Monte Carlo simulation of commodity prices that captures the change in value of forward purchases and sales as well as option values. Parameters and values are back tested daily against daily changes in mark-to-market value for proprietary trading activity. VaR assumes that normal market conditions prevail and that there are no changes in positions. Generation uses a 95% confidence interval, one-day holding period, one-tailed statistical measure in calculating its VaR. This means that Generation may state that there is a one in 20 chance that if prices move against its portfolio positions, its pre-tax loss in liquidating its portfolio in a one-day holding period would exceed the calculated VaR. To account for unusual events and loss of liquidity, Generation uses stress tests and scenario analysis.

For financial reporting purposes only, Generation calculates several other VaR estimates. The higher the confidence interval, the less likely the chance that the VaR estimate would be exceeded. A longer holding period considers the effect of liquidity in being able to actually

liquidate the portfolio. A two-tailed test considers potential upside in the portfolio in addition to the potential downside in the portfolio considered in the one-tailed test. The following table provides the VaR for all proprietary trading positions of Generation as of June 30, 2003.

|  | Proprietary<br>Trading VaR |     |
|--|----------------------------|-----|
| -----  |                            |     |
| 95% Confidence Level, One-Day Holding Period, One-Tailed |                            |     |
| Period end   | \$                         | 0.0 |
| Average for the period                                   |                            | 0.1 |
| High   |                            | 0.2 |
| Low  |                            | 0.0 |
| 95% Confidence Level, Ten-Day Holding Period, Two-Tailed |                            |     |
| Period End   | \$                         | 0.6 |
| Average for the period                                   |                            | 0.5 |
| High   |                            | 0.8 |
| Low  |                            | 0.3 |
| 99% Confidence Level, One-Day Holding Period, Two-Tailed |                            |     |
| Period end   | \$                         | 0.2 |
| Average for the period                                   |                            | 0.2 |
| High   |                            | 0.3 |
| Low  |                            | 0.1 |
| -----  |                            |     |

Credit Risk  
Generation

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

The following table provides information on Generation's credit exposure, net of collateral, as of June 30, 2003. It further delineates that exposure by the credit rating of the counterparties and provides guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The table below does not include sales to Generation's affiliates or exposure through Independent System Operators.

| Rating                                  | Total Exposure Before Credit Collateral | Credit Collateral | Net Exposure  | Number Of Counterparties Greater than 10% of Net Exposure | Net Exposure Of Counterparties Greater than 10% of Net Exposure |
|---|---|-------------------|---------------|---|---|
| Investment grade                        | \$ 158                                  | \$ --             | \$ 158        | 3   | \$ 81   |
| Split rating                            | --                                      | --                | --            | --  | --  |
| Non-investment grade                    | 10                                      | 9                 | 1             | --  | --  |
| No external ratings                     |   |                   |               |   |   |
| Internally rated - investment grade     | 12                                      | --                | 12            | 3   | 10  |
| Internally rated - non-investment grade | 13                                      | 1                 | 12            | 3   | 12  |
| <b>Total</b>                            | <b>\$ 193</b>                           | <b>\$ 10</b>      | <b>\$ 183</b> | <b>9</b>  | <b>\$ 103</b>   |

| Rating                                  | Maturity of Credit Risk Exposure |              |                               |   |
|---|----------------------------------|--------------|-------------------------------|---|
|   | Less than 2 Years                | 2-5 Years    | Exposure Greater than 5 Years | Total Exposure Before Credit Collateral |
| Investment grade                        | \$ 148                           | \$ 10        | \$ --                         | \$ 158                                  |
| Split rating                            | --                               | --           | --                            | --                                      |
| Non-investment grade                    | 10                               | --           | --                            | 10                                      |
| No external ratings                     |                                  |              |                               |   |
| Internally rated - investment grade     | 11                               | 1            | --                            | 12                                      |
| Internally rated - non-investment grade | 13                               | --           | --                            | 13                                      |
| <b>Total</b>                            | <b>\$ 182</b>                    | <b>\$ 11</b> | <b>\$ --</b>                  | <b>\$ 193</b>                           |

Generation is a counterparty to Dynegy in various energy transactions. In early July 2002, the credit ratings of Dynegy were downgraded to below investment grade by two credit rating agencies. As of June 30, 2003, Generation had a net receivable from Dynegy of approximately \$4 million and, consistent with the terms of the existing credit arrangement, has received collateral in support of this receivable. Generation also has credit risk associated with Dynegy through Generation's equity investment in Sithe. Sithe is a 60% owner of the Independence generating station, a 1,040-MW gas-fired qualified facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of June 30, 2003, Sithe had recognized an asset on its balance sheet related to the fair market value of the financial swap agreement with Dynegy that is marked-to-market under the terms of SFAS No. 133. If Dynegy is unable to fulfill the terms of this agreement, Sithe would be required to impair this financial swap asset. Generation estimates, as a 49.9% owner of Sithe, that the impairment would result in an after-tax reduction of Generation's equity earnings of approximately \$17 million.

In addition to the impairment of the financial swap asset, if Dynegy were unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation may incur a further impairment associated with Sithe's Independence station.



Additionally, the future economic value of AmerGen's purchased power arrangement with Illinois Power Company, a subsidiary of Dynegy, could be impacted by events related to Dynegy's financial condition.

In connection with ComEd's sale of assets to Midwest Generation prior to the Merger, ComEd had entered into an Agency Agreement with Midwest Generation and certain of Midwest Generation's related parties (the "Guarantors") whereby the Guarantors assumed the benefits and liabilities of a coal purchase contract. ComEd remained the signatory to the coal contract, and in connection with the Merger and subsequent restructuring, Generation assumed the signatory obligation on this contract from ComEd. Midwest Generation's credit ratings have recently been downgraded by certain credit rating agencies. In the event of Midwest Generation and the Guarantors non-performance under the coal purchase contract, Generation would be required to fulfill the purchase commitments which extend through 2012. The contract requires the purchase of two million tons of coal annually, or specifies a minimum payout. Based upon current market prices, Generation's contingent obligations for the contract years 2003 to 2012 are estimated to be approximately \$81 million related to this agreement. Generation and ComEd have entered into other agreements with Midwest Generation in which the non-performance by Midwest Generation is currently not anticipated to result in significant contingent obligations to Generation or ComEd.

#### Interest Rate Risk ComEd

ComEd uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate based upon market conditions. ComEd also utilizes forward-starting interest rate swaps and treasury rate locks to lock in interest rate levels in anticipation of future financing. These strategies are employed to maintain the lowest cost of capital. At June 30, 2003, these interest rate swaps with an aggregate notional amount of \$200 million, designated as cash flow hedges, had an aggregate fair market value exposure of \$6 million based on the present value of the difference between the contract and market rates at June 30, 2003. If these derivative instruments had been terminated at June 30, 2003, this estimated fair value represents the amount to be paid by ComEd to the counterparties.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at June 30, 2003 is estimated to be \$13 million in the counterparties favor.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at June 30, 2003 is estimated to be less than \$1 million in the counterparties favor.

ComEd has entered into fixed-to-floating interest rate swaps in order to maintain its targeted percentage of variable rate debt associated with fixed-rate debt issuances in the aggregate amount of \$485 million. At June 30, 2003, these interest rate swaps, designated as fair value hedges, had an aggregate fair market value of \$46 million based on the present value difference between the contract and market rates at June 30, 2003. If these derivative

instruments had been terminated at June 30, 2003, this estimated fair value represents the amount that would be paid by the counterparties to ComEd.

The aggregate fair value of the interest rate swaps, designated as fair value hedges, that would have resulted from a hypothetical 50 basis point decrease in the spot yield at June 30, 2003 is estimated to be \$53 million in ComEd's favor.

The aggregate fair value of the interest rate swaps, designated as fair value hedges, that would have resulted from a hypothetical 50 basis point increase in the spot yield at June 30, 2003 is estimated to be \$39 million in ComEd's favor.

#### PECO

In February 2003, PECO entered into forward-starting interest rate swaps in the aggregate amount of \$360 million to lock in interest rate levels in anticipation of future financings. The debt issuances that these swaps were hedging were considered probable in February 2003 and closed in April 2003; therefore, PECO accounted for these interest rate swap transactions as hedges. In connection with PECO's April 28, 2003 issuance of \$450 million in First and Refunding Mortgage Bonds, PECO settled the swaps for net proceeds of \$1 million, which was recorded in other comprehensive income and is being amortized over the life of the debt issuance.

PECO 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. At June 30, 2003, these interest rate swaps had an aggregate fair market value exposure of \$17 million based on the present value difference between the contract and market rates at June 30, 2003. If these derivative instruments had been terminated at June 30, 2003, this estimated fair value represents the amount to be paid by PECO to the counterparties.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point decrease in the spot yield at June 30, 2003 is estimated to be \$18 million in the counterparties favor.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point increase in the spot yield at June 30, 2003 is estimated to be \$15 million in the counterparties favor.

PECO also has interest rate swaps in place to satisfy counterparty credit requirements in regards to the floating rate series of transition bonds which are mirror swaps of each other. These swaps are not designated as cash flow hedges; therefore, they are required to be marked-to-market if there is a difference in their values. Since these swaps offset each other, a mark-to-market adjustment is not expected to occur.

#### Generation

Generation uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Generation also uses interest rate swaps when deemed appropriate to adjust exposure based upon market conditions. These strategies are employed to achieve a lower cost of capital.

As of June 30, 2003, a hypothetical 10% increase in the interest rates associated with variable rate debt would not have a material impact on pre-tax earnings for the three and six months ended June 30, 2003.

Under the terms of the EBG Facility, EBG is required to effectively fix the interest rate on 50% of borrowings under the facility through its maturity in 2007. As of June 30, 2003, EBG has entered into interest rate swap agreements, which have effectively fixed the interest rate on \$861 million of notional principal, or approximately 80% of borrowings outstanding under the EBG Facility at June 30, 2003. The fair market value exposure of these swaps, designated as cash flow hedges, is \$105 million. If these derivative instruments had been terminated at June 30, 2003, this estimated fair value represents the amount to be paid by EBG to the counterparties.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at June 30, 2003 is estimated to be \$119 million in the counterparties favor.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at June 30, 2003 is estimated to be \$91 million in the counterparties favor.

In June 2003, Generation entered into forward-starting interest rate swaps in the aggregate amount of \$200 million to lock in interest rate levels in anticipation of future financings. The debt issuances that these swaps are hedging are considered probable, therefore, Generation has accounted for these interest rate swap transactions as hedges. At June 30, 2003, these interest rate swaps, designated as cash flow hedges, had an aggregate fair market value of \$4 million based on the present value of the difference between the contract and market rates at June 30, 2003. If these derivative instruments had been terminated at June 30, 2003, this estimated fair value represents the amount to be paid by the counterparties to Generation.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at June 30, 2003 is estimated to be \$4 million in the counterparties favor.

The aggregate fair value of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at June 30, 2003 is estimated to be \$12 million in Generation's favor.

Equity Price Risk  
Generation

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of June 30, 2003, decommissioning trust funds are reflected at fair value on Exelon and Generation's Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed rate, fixed income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$175 million reduction in the fair value of the trust assets.

ITEM 4. CONTROLS AND PROCEDURES

Exelon

During the second quarter of 2003, Exelon's management, including the principal executive officer and principal financial officer, evaluated Exelon's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in Exelon's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that (a) material information relating to Exelon, including its consolidated subsidiaries, is made known to Exelon's management, including these officers, by other employees of Exelon and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Exelon's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, Exelon does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of June 30, 2003, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provides reasonable assurance that the disclosure controls and procedures can accomplish their objectives. Exelon continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

In the second quarter of 2003, Exelon implemented a new general ledger accounting system. The new general ledger system was implemented in order to provide a consistent system platform for the affiliated Exelon companies and to enhance management reporting and analysis. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. Exelon continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

#### ComEd

During the second quarter of 2003, ComEd's management, including the principal executive officer and principal financial officer, evaluated ComEd's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in ComEd's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that (a) material information relating to ComEd, including its consolidated subsidiaries, is made known to ComEd's management, including these officers, by other employees of ComEd and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. ComEd's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, ComEd does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of June 30, 2003, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provides reasonable assurance that the disclosure controls and procedures can accomplish their objectives. ComEd continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

In the second quarter of 2003, ComEd implemented a new general ledger accounting system. The new general ledger system was implemented in order to provide a consistent system platform for the affiliated Exelon companies and to enhance management reporting and analysis. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. ComEd continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

#### PECO

During the second quarter of 2003, PECO's management, including the principal executive officer and principal financial officer, evaluated PECO's disclosure controls and

procedures related to the recording, processing, summarization and reporting of information in PECO's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that (a) material information relating to PECO, including its consolidated subsidiaries, is made known to PECO's management, including these officers, by other employees of PECO and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. PECO's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, PECO does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of June 30, 2003, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provides reasonable assurance that the disclosure controls and procedures can accomplish their objectives. PECO continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

In the second quarter of 2003, PECO implemented a new general ledger accounting system. The new general ledger system was implemented in order to provide a consistent system platform for the affiliated Exelon companies and to enhance management reporting and analysis. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. PECO continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

#### Generation

During the second quarter of 2003, Generation's management, including the principal executive officer and principal financial officer, evaluated Generation's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in Generation's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that (a) material information relating to Generation, including its consolidated subsidiaries, is made known to Generation's management, including these officers, by other employees of Generation and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Generation's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, Generation

does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of June 30, 2003, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provides reasonable assurance that the disclosure controls and procedures can accomplish their objectives. Generation continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

In the second quarter of 2003, Generation implemented a new general ledger accounting system. The new general ledger system was implemented in order to provide a consistent system platform for the affiliated Exelon companies and to enhance management reporting and analysis. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. Generation continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### ComEd

As previously reported in the 2002 Form 10-K and the March 2003 Form 10-Q, three of ComEd's wholesale municipal customers had filed a complaint and request for refund with FERC alleging that ComEd failed to properly adjust its rates pursuant to the terms of the respective electric service contracts. ComEd and the municipal customers have executed a settlement agreement ending the litigation. Under the settlement, ComEd will pay a total of approximately \$3 million to the three municipalities.

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

#### Exelon

On April 29, 2003, Exelon held its 2003 Annual Meeting of Shareholders.

Proposal 1 was the election of five Class III directors to serve three-year terms expiring in 2006. The following directors were elected:

|                     | Votes For   | Votes Withheld |
|---------------------|-------------|----------------|
| M. Walter D'Alessio | 259,812,777 | 5,103,938      |
| Rosemarie B. Greco  | 259,802,051 | 5,114,664      |
| John M. Palms       | 257,952,983 | 6,963,732      |
| John W. Rogers, Jr. | 256,121,360 | 8,795,355      |
| Richard L. Thomas   | 259,607,872 | 5,308,843      |

Proposal 2 was the ratification of PricewaterhouseCoopers LLP as independent accountants for Exelon and its subsidiaries for 2003. The shareholders approved the proposal with 253,274,833 votes cast for, 9,037,160 votes cast against and 2,604,722 votes abstaining.

Proposal 3 described in the proxy statement was a non-binding shareholder proposal made by the AFL-CIO Reserve Fund that urged the Board of Directors of Exelon to seek shareholder approval of any extraordinary pension benefits for executives. The proponent withdrew the proposal after Exelon agreed to make certain changes in its compensation practices. As a result, the proposal was not voted on at the Exelon annual meeting. Recognizing shareholder concern about executive compensation, Exelon agreed that after January 1, 2004, it would not grant additional unearned service credits for current executives in the Exelon pension plans without shareholder approval. It also agreed that it would not provide more than two years' service credit under new change-in-control agreements without shareholder approval. If Exelon should need to offer new executives more than the pension benefits that they would give up to come work for Exelon, the additional pension benefits would be performance-based and not guaranteed. The agreement does not affect benefits or compensation under existing agreements, arrangements or change-in-control provisions. It does not limit Exelon's rights to provide compensation or benefits outside the pension plans.

#### ComEd

On May 29, 2003 ComEd held its 2003 Annual Meeting of Shareholders.

Proposal 1 was the election of 5 directors to serve a term of one year. The following directors were elected:

|                     | Votes For   | Votes Withheld |
|---------------------|-------------|----------------|
| John W. Rowe        | 127,002,904 | --             |
| Pamela B. Strobel   | 127,002,904 | --             |
| Kenneth G. Lawrence | 127,002,904 | --             |
| Frank M. Clark      | 127,002,904 | --             |
| Robert S. Shapard   | 127,002,904 | --             |

Proposal 2 was to amend the Articles of Incorporate to add the practice of professional engineering to the purposes for which ComEd has been organized. The amendment was approved with 127,002,904 votes cast for, 0 votes cast against, and 0 votes abstaining.



PECO

On May 29, 2003 PECO Energy Company held its Annual Meeting of Shareholders.

Proposal 1 was the election of 5 directors into three classes in compliance with the Bylaws. The three-year terms of each class were staggered so that the term of one class will expire at each annual meeting. The following directors were elected:

|  | Votes For   | Votes Withheld |
|--|-------------|----------------|
| Class I, with term expiring in 2006:   |             |                |
| John W. Rowe                           | 170,478,507 | --             |
| Class II, with term expiring in 2005:  |             |                |
| Pamela B. Strobel                      | 170,478,507 | --             |
| Kenneth G. Lawrence                    | 170,478,507 | --             |
| Class III, with term expiring in 2004: |             |                |
| Frank M. Clark                         | 170,478,507 | --             |
| Robert S. Shapard                      | 170,478,507 | --             |

#### ITEM 5. OTHER INFORMATION

ComEd

As previously reported in the 2002 Form 10-K, in July 2002, FERC conditionally approved ComEd's decision to join PJM. On April 1, 2003, ComEd received approval from FERC to transfer control of ComEd's transmission assets to PJM. FERC also accepted for filing the PJM tariff as amended to reflect the inclusion of ComEd and other new members, subject to a compliance filing, which was made on May 1, 2003, and to hearing on certain issues. On June 2, 2003, ComEd began receiving electric transmission reservation services from PJM and transferred control of its Open Access Same Time Information System to PJM. ComEd expects to transfer functional control of its transmission assets to PJM and to integrate fully into PJM's energy market structures on November 1, 2003.

PECO

As previously reported in the 2002 Form 10-K and the March 2003 Form 10-Q, on August 15, 2002, the International Brotherhood of Electrical Workers (IBEW) filed a petition with the National Labor Relations Board (NLRB) to conduct a unionization vote of certain of PECO's employees. On May 21, 2003, the PECO union election was held and a majority of PECO workers voted against union representation. The results of the election have not been certified due to pending challenges and objections.

As previously reported in the 2002 Form 10-K, the PUC's Final Electric Restructuring Order established MSTs to promote competition. On May 1, 2003, the PUC approved the residential customer plan filed by PECO in February 2003. Under the plan, a total of 375,000 residential customers may be transferred to alternative electric generation suppliers in December 2003. Customers transferred will have the right to return to PECO at any time.

Generation

As previously reported in the 2002 Form 10-K, on April 9, 2003, the IBEW filed a petition with the NLRB to represent all production and maintenance employees in Generation's fossil and hydroelectric operations in the Mid-Atlantic operating group. These approximate 300 employees had not been covered by a collective bargaining agreement. Pursuant to an election held on June 18, 2003, the employees voted to become represented by the IBEW.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 4.1 - Indenture to Subordinated Debt Securities dated as of June 24, 2003 between PECO Energy Company, as Issuer, and Wachovia Bank National Association, as Trustee.
- 4.2 - Preferred Securities Guarantee Agreement between PECO Energy Company, as Guarantor, and Wachovia Trust Company, National Association, as Trustee, dated as of June 24, 2003.
- 4.3 - PECO Energy Capital Trust IV Amended and Restated Declaration of Trust among PECO Energy Company, as Sponsor, Wachovia Trust Company, National Association, as Delaware Trustee and Property Trustee, and J. Barry Mitchell, George R. Shicora and Charles S. Walls as Administrative Trustees dated as of June 24, 2003.

Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed by the following officers for the following companies:

- 
- 31.1 - Filed by John W. Rowe for Exelon Corporation
  - 31.2 - Filed by Robert S. Shapard for Exelon Corporation
  - 31.3 - Filed by Michael B. Bemis for Commonwealth Edison Company
  - 31.4 - Filed by Robert S. Shapard for Commonwealth Edison Company
  - 31.5 - Filed by Michael B. Bemis for PECO Energy Company
  - 31.6 - Filed by Robert S. Shapard for PECO Energy Company
  - 31.7 - Filed by Oliver D. Kingsley Jr. for Exelon Generation Company, LLC
  - 31.8 - Filed by Robert S. Shapard for Exelon Generation Company, LLC
- 

Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes - Oxley Act of 2002) as to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed by the following officers for the following companies:

- 
- 32.1 - Filed by John W. Rowe for Exelon Corporation
  - 32.2 - Filed by Robert S. Shapard for Exelon Corporation
  - 32.3 - Filed by Michael B. Bemis for Commonwealth Edison Company
  - 32.4 - Filed by Robert S. Shapard for Commonwealth Edison Company
  - 32.5 - Filed by Michael B. Bemis for PECO Energy Company
  - 32.6 - Filed by Robert S. Shapard for PECO Energy Company
  - 32.7 - Filed by Oliver D. Kingsley Jr. for Exelon Generation Company, LLC
  - 32.8 - Filed by Robert S. Shapard for Exelon Generation Company, LLC
-

(b) Reports on Form 8-K:

Exelon, ComEd, PECO and/or Generation filed Current Reports on Form 8-K during the three months ended June 30, 2003 regarding the following items:

| Date of Earliest<br>Event Reported | Description of Item Reported   |
|------------------------------------|--|
| April 3, 2003                      | "ITEM 9. REGULATION FD DISCLOSURE" filed for Exelon, ComEd, PECO and Generation regarding a presentation by John W. Rowe, Chairman and CEO, at the Berenson & Company and The Williams Capital Group Midwest Utilities Seminar. The exhibits include the slides used during the presentation.  |
| April 7, 2003                      | "ITEM 5. OTHER EVENTS" filed by ComEd regarding the issuance of \$395 million in First Mortgage Bonds.   |
| April 28, 2003                     | "ITEM 9. REGULATION FD DISCLOSURE" filed under Item 9 in compliance with Item 12 for Exelon, ComEd, PECO and Generation regarding the first quarter 2003 earnings release and items discussed during the earnings conference call. Also included as an exhibit to this report was a new release regarding the "Exelon Way" business model. |
| May 2, 2003                        | "ITEM 5. OTHER EVENTS" filed for Exelon regarding Richard H. Glanton's acceptance of the position of Senior Vice President, Corporate Development and his relinquishment of his directorship on the Exelon Board.  |
| May 7, 2003                        | "ITEM 5. OTHER EVENTS" filed for Exelon, PECO and Generation announcing that the U.S. Nuclear Regulatory Commission approved a 20-year extension of the operating licenses for Exelon Nuclear's Peach Bottom Atomic Power Station.   |
| May 20, 2003                       | "ITEM 9. REGULATION FD DISCLOSURE" filed for Exelon regarding a presentation by Robert S. Shapard, Executive Vice President and CFO. The exhibit includes the slides used during the presentation.   |
| May 29, 2003                       | "ITEM 5. OTHER EVENTS" filed for Exelon and Generation announcing the issuance of a call notice for the remaining 50.1% interest in Sithe Energies, Inc.   |
| June 2, 2003                       | "ITEM 5. OTHER EVENTS" filed for Exelon and Generation regarding a request for an amendment to the Exelon Boston   |

Generating, LLC credit facility and the construction of the Mystic 8 and 9 and Fore River generating units.

June 2, 2003 "ITEM 5. OTHER EVENTS" filed for Exelon and Generation regarding the approval of an amendment to the Exelon Boston Generating, LLC credit facility.

June 11, 2003 "ITEM 9. REGULATION FD DISCLOSURE" filed for Exelon, ComEd, PECO and Generation regarding a presentation by Robert S. Shapard, Executive Vice President and CFO. The exhibits include the slides and handouts used during the presentation.

June 13, 2003 "ITEM 5. OTHER EVENTS" filed for Exelon regarding the dismissal of a class action lawsuit.

June 18, 2003 "ITEM 5. OTHER EVENTS" filed for Exelon announcing an agreement to sell certain businesses of its subsidiary InfraSource, Inc.

June 18, 2003 "ITEM 5. OTHER EVENTS" filed for Exelon, ComEd, PECO and Generation regarding the sale of certain businesses of InfraSource, Inc.

June 25, 2003 "ITEM 5. OTHER EVENTS" filed for Exelon, ComEd, and Generation regarding the exercise of Generation's call option under an existing purchase power agreement with Midwest Generation, LLC.

-----

SIGNATURES

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

EXELON CORPORATION

/s/ John W. Rowe

-----  
JOHN W. ROWE  
Chairman and  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Robert S. Shapard

-----  
ROBERT S. SHAPARD  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

/s/ Matthew F. Hilzinger

-----  
MATTHEW F. HILZINGER  
Vice President and Corporate Controller  
(Principal Accounting Officer)

July 30, 2003

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

COMMONWEALTH EDISON COMPANY

/s/ Michael B. Bemis

-----  
MICHAEL B. BEMIS  
President, Exelon Energy Delivery  
(Principal Executive Officer)

/s/ Robert S. Shapard

-----  
ROBERT S. SHAPARD  
Executive Vice President and Chief  
Financial Officer, Exelon  
(Principal Financial Officer)

/s/ Duane M. DesParte

-----  
DUANE M. DESPARTE  
Vice President and Controller, Exelon Energy Delivery  
(Principal Accounting Officer)

July 30, 2003

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

PECO ENERGY COMPANY

/s/ Michael B. Bemis

-----  
MICHAEL B. BEMIS  
President, Exelon Energy Delivery  
(Principal Executive Officer)

/s/ Robert S. Shapard

-----  
ROBERT S. SHAPARD  
Executive Vice President and Chief  
Financial Officer, Exelon  
(Principal Financial Officer)

/s/ Duane M. DesParte

-----  
DUANE M. DESPARTE  
Vice President and Controller, Exelon Energy Delivery  
(Principal Accounting Officer)

July 30, 2003

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

EXELON GENERATION COMPANY, LLC

/s/ Oliver D. Kingsley Jr.

-----  
OLIVER D. KINGSLEY JR.  
Chief Executive Officer and  
President  
(Principal Executive Officer)

/s/ Robert S. Shapard

-----  
ROBERT S. SHAPARD  
Executive Vice President and Chief  
Financial Officer, Exelon  
(Principal Financial Officer)

/s/ Thomas Weir III

-----  
THOMAS WEIR III  
Vice President and Controller  
(Principal Accounting Officer)

July 30, 2003

PECO ENERGY COMPANY,  
Issuer

AND

WACHOVIA BANK, NATIONAL ASSOCIATION,  
as Trustee

INDENTURE

Dated as of June 24, 2003

Subordinated Debt Securities

CROSS-REFERENCE TABLE\*

| Section of<br>Trust Indenture Act<br>of 1939, as amended<br>----- | Section of<br>Indenture<br>----- |
|---|----------------------------------|
| 310(a)  | 7.09                             |
| 310(b)  | 7.08                             |
|   | 7.10                             |
| 310(c)  | Inapplicable                     |
| 311(a)  | 7.13                             |
| 311(b)  | 7.13                             |
| 311(c)  | Inapplicable                     |
| 312(a)  | 5.01                             |
|   | 5.02(a)                          |
| 312(b)  | 5.02(c)                          |
| 312(c)  | 5.02(d)                          |
| 313(a)  | 5.04(a)                          |
| 313(b)  | 5.04(b)                          |
| 313(c)  | 5.04(a)                          |
|   | 5.04(b)                          |
| 313(d)  | 5.04(c)                          |
| 314(a)  | 5.03                             |
| 314(b)  | Inapplicable                     |
| 314(c)  | 13.07                            |
| 314(d)  | Inapplicable                     |
| 314(e)  | 13.07                            |
| 314(f)  | Inapplicable                     |
| 315(a)  | 7.01(b)                          |
|   | 7.02                             |
| 315(b)  | 6.01(e)                          |
| 315(c)  | 7.01                             |
| 315(d)  | 7.01(b)                          |
|   | 7.01(c)                          |
| 315(e)  | 6.07                             |
| 316(a)  | 6.06                             |
|   | 8.04                             |
| 316(b)  | 6.04                             |
| 316(c)  | 8.01                             |
| 317(a)  | 6.02                             |
| 317(b)  | 4.03                             |
| 318(a)  | 13.09                            |

\*This Cross-Reference Table does not constitute part of the Indenture and shall not have any bearing on the interpretation of any of its terms or provisions.

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THIS INDENTURE, dated as of June 24, 2003, between PECO ENERGY COMPANY, a Pennsylvania corporation (the "Company"), and WACHOVIA BANK, NATIONAL ASSOCIATION, a national banking association not in its individual capacity but solely as trustee (the "Trustee"):

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the execution and delivery of this Indenture to provide for the issuance of unsecured subordinated debt securities (hereinafter referred to as the "Debt Securities"), in an unlimited aggregate principal amount to be issued from time to time in one or more series as in this Indenture provided, as registered Debt Securities without coupons, to be authenticated by the certificate of the Trustee;

WHEREAS, to provide the terms and conditions upon which the Debt Securities are to be authenticated, issued and delivered, the Company has duly authorized the execution of this Indenture; and

WHEREAS, all things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done;

NOW, THEREFORE, in consideration of the premises and the purchase of the Debt Securities by the holders thereof, and intending to be legally bound hereby, it is mutually covenanted and agreed as follows for the equal and ratable benefit of the holders of Debt Securities:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions of Terms. The terms defined in this Section (except as in this Indenture otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section and shall include the plural as well as the singular. All other terms used in this Indenture that are defined in the Trust Indenture Act of 1939, as amended, or that are by reference in such Act defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this instrument.

"Additional Interest" means (i) such additional amounts as may be required so that the net amounts received and retained by the Holder (if the Holder is a PECO Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the Holder would have received had no such taxes, duties, assessments, or other governmental charges been imposed; and (ii) any interest due and not paid on an Interest Payment Date, together with interest thereon from such Interest Payment Date to the date of payment, compounded semiannually, on each Interest Payment Date.

"Affiliate" means, with respect to a specified Person, (a) any Person directly or indirectly owning, controlling or holding with power to vote 10% or more of the outstanding voting securities or other ownership interests of the specified Person, (b) any Person 10% or more of whose outstanding voting securities or other ownership interests are directly or indirectly owned, controlled or held with power to vote by the specified Person, (c) any Person directly or indirectly controlling, controlled by or under common control with the specified Person, (d) a partnership in which the specified Person is a general partner, (e) any officer or director of the specified Person and (f) if the specified Person is an individual, any entity of which the specified Person is an officer, director or general partner.

"Authenticating Agent" means an authenticating agent with respect to all or any of the series of Debt Securities appointed with respect to all or such series of the Debt Securities by the Trustee pursuant to Section 2.10.

"Bankruptcy Law" means Title 11, United States Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" means the board of directors of the Company, or any duly authorized committee of such board or any officer of the Company duly authorized by the board of directors of the Company or a duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification; provided that any Board Resolution that is adopted by an officer of the Company shall be accompanied by a copy of a resolution of either the board of directors of the Company or a duly authorized committee of that board, certified as aforesaid, authorizing such officer to take such action.

"Business Day" means, with respect to any series of Debt Securities, any day other than a Saturday or Sunday or a day on which federal or state banking institutions in Wilmington, Delaware or Philadelphia, Pennsylvania, are authorized or obligated by law, executive order or regulation to close, or a day on which the Corporate Trust Office of the Trustee or the Property Trustee is closed for business.

"Certificate" means a certificate signed by the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the Company. The Certificate need not comply with the provisions of Section 13.07.

"Common Securities" means undivided beneficial interests in the assets of a PECO Trust which rank pari passu with Preferred Securities issued by such trust; provided, however, that upon the occurrence of an Event of Default, the rights of holders of Common Securities to payment in respect of distributions and payments upon liquidation, redemption and maturity are subordinated to the rights of holders of Preferred Securities.

"Common Securities Guarantee" means any guarantee that the Company may enter into with a PECO Trust or other Persons that operate directly or indirectly for the benefit of holders of Common Securities of such trust.

"Company" means PECO Energy Company, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, and, subject to the provisions of Article X, shall also include its successors and assigns.

"Company Order" means a written request or order signed in the name of the Company by an officer, or if required by the context in which such term appears herein, officers, of the Company and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee at which, at any particular time, its corporate trust business shall be principally administered, which office at the date hereof is located at Wachovia Bank, National Association, PA 1249, 123 South Broad Street, 11th Floor, Philadelphia, PA 19109, Attention: Corporate Trust Administration.

"Custodian" means any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

"Declaration" means, in respect of a PECO Trust, the amended and restated declaration of trust of such PECO Trust or any other governing instrument of such PECO Trust.

"Debt Securities" means the unsecured subordinated debt securities of the Company authenticated and delivered under this Indenture.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" has the meaning specified in Section 2.03.

"Depository" means, with respect to Debt Securities of any series for which the Company shall determine that such Debt Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Exchange Act or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to either Section 2.01 or 2.11.

"Event of Default" means, with respect to Debt Securities of a particular series, any event specified in Section 6.01, continued for the period of time, if any, therein designated.

"Exchange Act" means the Securities Exchange Act of 1934.

"Global Security" means, with respect to any series of Debt Securities, a Debt Security executed by the Company and delivered by the Trustee to the Depository or pursuant to the Depository's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depository or its nominee.

"Governmental Obligations" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America that, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such Governmental Obligation or a specific payment of principal of or interest on any such Governmental Obligation held by such custodian for the account of the holder of such depository receipt; provided, however, that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Governmental Obligation or the specific payment of principal of or interest on the Governmental Obligation evidenced by such depository receipt.

"herein," "hereof" and "hereunder," and other words of similar import, refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into in accordance with the terms hereof.

"Interest Payment Date," when used with respect to any installment of interest on a Debt Security of a particular series, means the date specified in such Debt Security or in a Board Resolution or in an indenture supplemental hereto with respect to such series as the fixed date on which an installment of interest with respect to Debt Securities of that series is due and payable.

"List of Holders" means the list of holders of each series of Debt Securities provided by the Company to the Trustee under Section 5.01.

"Officers' Certificate" means a certificate signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Controller or an Assistant Controller or the Secretary or an Assistant Secretary of the Company that is delivered to the Trustee in accordance with the terms hereof. Each such certificate shall include the statements provided for in Section 13.07, if and to the extent required by the provisions thereof.

"Opinion of Counsel" means an opinion in writing of legal counsel, who may be an employee of or counsel for the Company, that is reasonably acceptable to the Trustee and delivered to the Trustee in accordance with the terms hereof. Each such opinion shall include the statements provided for in Section 13.07, if and to the extent required by the provisions thereof.

"Outstanding," when used with reference to Debt Securities of any series, means, subject to the provisions of Section 8.04, as of any particular time, all Debt Securities of that series theretofore authenticated and delivered by the Trustee under this Indenture, except (a) Debt Securities theretofore canceled by the Trustee, or delivered to the Trustee for cancellation or that have previously been canceled; (b) Debt Securities or portions thereof for the payment or redemption of which moneys or Governmental Obligations in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided, however, that if such Debt Securities or portions of such Debt Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article III provided, or provision satisfactory to the Trustee shall have been made for giving such notice, (c) Debt Securities in lieu of or in substitution for which other Debt Securities shall have been authenticated and delivered pursuant to the terms of Section 2.07; and (d) Debt Securities, except to the extent provided in Sections 11.01 and 11.02, with respect to which the Company has effected defeasance and/or covenant defeasance as provided in Article XI.

"PECO Trust" means a Delaware statutory trust formed by the Company for the purpose of purchasing Debt Securities of the Company.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, joint-stock company, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

"Predecessor Security" of any particular Debt Security means every previous Debt Security evidencing all or a portion of the same debt and guarantee as that evidenced by such particular Debt Security; and, for the purposes of this definition, any Debt Security authenticated and delivered under Section 2.07 in lieu of a lost, destroyed or stolen Debt Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Debt Security.

"Preferred Securities" means undivided beneficial interests in the assets of a PECO Trust which rank pari passu with Common Securities issued by such trust; provided, however, that upon the occurrence of an Event of Default, the rights of holders of Common Securities to payment in respect of

distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights of holders of Preferred Securities.

"Preferred Securities Guarantee" means any guarantee that the Company may enter into with a PECO Trust or other Persons that operate directly or indirectly for the benefit of holders of Preferred Securities of such trust.

"Property Trustee" means the entity performing the functions of the Property Trustee of a PECO Trust under the applicable Declaration of such PECO Trust.

"Responsible Officer," when used with respect to the Trustee, means the Chairman of the Board of Directors, the President, any Vice President, the Secretary, the Treasurer, any trust officer, any corporate trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Securityholder," "Holder," "holder of Debt Securities," "registered holder," or other similar term, means the Person or Persons in whose name or names a particular Debt Security shall be registered on the Security Register in accordance with the terms of this Indenture.

"Security Register" and "Security Registrar" have the respective meanings set forth in Section 2.05.

"Senior Indebtedness" means (i) any payment in respect of (A) indebtedness of the Company for money borrowed and (B) indebtedness evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company including, without limitation, indebtedness evidenced by securities issued pursuant to the provisions of the First and Refunding Mortgage dated May 1, 1923, as supplemented by subsequent supplemental indentures; (ii) all capital lease obligations of the Company; (iii) all obligations of the Company issued or assumed as the deferred purchase price of property, all conditional sale obligations of the Company and all obligations of such obligor under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business); (iv) all obligations of the Company for reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) of other persons for the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by such obligor), except for (1) any such indebtedness that is by its terms subordinated to or ranked pari passu with the Debt Securities, as the case may be, including all other debt securities and guarantees in respect of those debt securities, issued to any other trusts, partnerships or any other entity affiliated with the Company which is a financing vehicle of the Company ("Financing Entity") in connection with an issuance of preferred securities by such Financing Entity or other securities which rank pari passu with, or junior to, the Preferred Securities and (2) any indebtedness between or among the Company and its Affiliates.

"Subsidiary" means, with respect to any Person, (i) any corporation at least a majority of whose outstanding Voting Stock shall at the time be owned, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture or similar entity, at least a majority of whose outstanding partnership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such

Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner.

"Trustee" means Wachovia Bank, National Association, not in its individual capacity, but solely as Trustee hereunder, and, subject to the provisions of Article VII, shall also include its successors and assigns, and, if at any time there is more than one Person acting in such capacity hereunder, "Trustee" shall mean each such Person. The term "Trustee," as used with respect to a particular series of Debt Securities, shall mean the trustee with respect to that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939, subject to the provisions of Sections 9.01, 9.02 and 10.01, as in effect at the date of execution of this instrument.

"Trust Securities" means Common Securities and Preferred Securities.

"Voting Stock," as applied to stock of any Person, means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

ARTICLE II  
ISSUE, DESCRIPTION, TERMS, EXECUTION,  
REGISTRATION AND EXCHANGE OF DEBT SECURITIES

SECTION 2.01. Designation and Terms of Debt Securities. The aggregate principal amount of Debt Securities that may be authenticated and delivered under this Indenture is unlimited. The Debt Securities may be issued in one or more series up to the aggregate principal amount of Debt Securities of that series from time to time authorized by or pursuant to a Board Resolution of the Company or, pursuant to one or more indentures supplemental hereto. Prior to the initial issuance of Debt Securities of any series, there shall be established in or pursuant to a Board Resolution of the Company, and set forth in an Officers' Certificate of the Company, or established in one or more indentures supplemental hereto:

- (1) the title of the series of Debt Security (which shall distinguish the Debt Securities of that series from all other series of Debt Securities);
- (2) any limit upon the aggregate principal amount of the Debt Securities of that series that may be authenticated and delivered under this Indenture (except for Debt Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Debt Securities of that series);
- (3) the date or dates on which the principal of the Debt Securities of that series is payable;
- (4) the rate or rates at which the Debt Securities of that series shall bear interest or the manner of calculation of such rate or rates, if any;
- (5) the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest will be payable or the manner of determination of such Interest Payment Dates and the record date for the determination of holders to whom interest is payable on any such Interest Payment Dates;
- (6) the right, if any, to extend the interest payment periods and the duration of such extension;



- (7) the period or periods within which, the price or prices at which, and the terms and conditions upon which, Debt Securities of that series may be redeemed, in whole or in part, at the option of the Company;
- (8) the obligation, if any, of the Company to redeem or purchase Debt Securities of that series pursuant to any sinking fund or analogous provisions (including payments made in cash in participation of future sinking fund obligations) or at the option of a holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Debt Securities of that series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- (9) the subordination terms of the Debt Securities of that series;
- (10) the form of the Debt Securities of that series, including the form of the certificate of authentication for such series;
- (11) if other than denominations of twenty-five U.S. dollars (\$25) or any integral multiple thereof, the denominations in which the Debt Securities of that series shall be issuable;
- (12) whether and under what circumstances the Company will pay Additional Interest on the Debt Securities of the series to any Holder who is not a United States person (including any modification to the definition of such term) in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Debt Securities rather than pay such Additional Interest (and the terms of any such option);
- (13) any and all other terms with respect to such series (which terms shall not be inconsistent with the terms of this Indenture), including any terms which may be required by or advisable under United States laws or regulations or advisable in connection with the marketing of Debt Securities of that series; and
- (14) whether the Debt Securities are issuable as a Global Security and, in such case, the identity of the Depository for such series.

All Debt Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to any such Board Resolution and set forth in the applicable Officer's Certificate, or in any indentures supplemental hereto.

If any of the terms of a series are established by action taken pursuant to a Board Resolution of the Company, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate of the Company setting forth the terms of such series.

SECTION 2.02. Form of Debt Securities and Trustee's Certificate. The Debt Securities of any series and the Trustee's certificate of authentication to be borne by such Debt Securities shall be substantially of the tenor and purport as set forth in one or more indentures supplemental hereto or as provided in a Board Resolution of the Company and as set forth in an Officers' Certificate of the Company, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which Debt Securities of that series may be listed, if any, or to conform to usage.

SECTION 2.03. Denominations; Provisions for Payment. The Debt Securities shall be issuable as registered Debt Securities and in the denominations of twenty-five U.S. dollars (\$25) or any integral multiple thereof, subject to Section 2.01(11). The Debt Securities of a particular series shall bear interest payable on the dates and at the rate specified with respect to that series. The principal of and the interest on the Debt Securities of any series, as well as any premium thereon in case of redemption thereof prior to maturity, shall be payable in the coin or currency of the United States of America that at the time is legal tender for public and private debt, at the office or agency of the Company maintained for that purpose in Philadelphia, Pennsylvania. Each Debt Security shall be dated the date of its authentication. Interest on the Debt Securities shall be computed on the basis of a 360-day year composed of twelve 30-day months.

The interest installment on any Debt Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date for Debt Securities of that series shall be paid to the Person in whose name said Debt Security (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment. In the event that any Debt Security of a particular series or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any Interest Payment Date and prior to such Interest Payment Date, interest on such Debt Security will be paid upon presentation and surrender of such Debt Security as provided in Section 3.03.

Any interest on any Debt Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date for Debt Securities of that series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its election, as provided in clause (1) or clause (2) below:

(1) The Company may make payment of any Defaulted Interest on Debt Securities to the Persons in whose names such Debt Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee and the paying agent in writing of the amount of Defaulted Interest proposed to be paid on each such Debt Security and the date of the proposed payment, and at the same time the Company shall deposit with the paying agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the paying agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. The special record date for the payment of such Defaulted Interest shall be the close of business not more than 15 nor less than 10 Business Days prior to the date of the proposed payment and not less than 15 Business Days after the receipt by the Trustee of the notice of the proposed payment. The Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the List of Holders (or in the Security Register if the Trustee is the Security Registrar of a particular series of Debt Securities), not less than 10 Business Days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Debt Securities (or their respective Predecessor Securities) are registered at the close of business on such special record date and shall be no longer payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on any Debt Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Debt Securities may be listed, if any, and upon such notice as may be required by such exchange, if, after

notice given by the Company to the Trustees of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the paying agent.

Unless otherwise set forth in a Board Resolution of the Company or one or more indentures supplemental hereto establishing the terms of any series of Debt Securities pursuant to Section 2.01 hereof, the term "regular record date" as used in this Section with respect to a series of Debt Securities with respect to any Interest Payment Date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the first day of a month, or the last day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the fifteenth day of a month, whether or not such date is a Business Day.

Subject to the foregoing provisions of this Section, each Debt Security of a series delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Debt Security of such series shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Debt Security.

SECTION 2.04. Execution and Authentication. The Debt Securities shall be signed on behalf of the Company by its President or one of its Vice Presidents, under its corporate seal attested by its Secretary or one of its Assistant Secretaries. Signatures may be in the form of a manual or facsimile signature. The Company may use the facsimile signature of any Person who shall have been a President or Vice President thereof, or of any Person who shall have been a Secretary or Assistant Secretary thereof, notwithstanding the fact that at the time the Debt Securities shall be authenticated and delivered or disposed of such Person shall have ceased to be the President or a Vice President, or the Secretary or an Assistant Secretary, of the Company. The seal of the Company may be in the form of a facsimile of such seal and may be impressed, affixed, imprinted or otherwise reproduced on the Debt Securities. The Debt Securities may contain such notations, legends or endorsements required by law, stock exchange rule or usage. Each Debt Security shall be dated the date of its authentication by the Trustee.

A Debt Security shall not be valid until authenticated manually by an authorized signatory of the Trustee, or by an Authenticating Agent. Such authentication upon any Debt Security shall be conclusive evidence that the Debt Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Debt Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order requesting the authentication and delivery of such Debt Securities, signed by its President or any Vice President and its Treasurer or any Assistant Treasurer, and the Trustee in accordance with such Company Order shall authenticate and deliver such Debt Securities.

In authenticating such Debt Securities and accepting the additional responsibilities under this Indenture in relation to such Debt Securities, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, in addition to an Officer's Certificate and an Opinion of Counsel under Section 13.07, an Opinion of Counsel stating that the form and terms thereof have been established in conformity with the provisions of this Indenture.

The Trustee shall not be required to authenticate such Securities if the issue of such Debt Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Debt Securities and this Indenture or otherwise in a manner that is not reasonably acceptable to the Trustee.

SECTION 2.05. Registration of Transfer and Exchange. (a) Debt Securities of any series may be exchanged upon presentation thereof at the office or agency of the Company designated for such purpose in Philadelphia, Pennsylvania or at the office of the Security Registrar, for other Debt Securities of such series of authorized denominations, and for a like aggregate principal amount, upon payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, all as provided in this Section. In respect of any Debt Securities so surrendered for exchange, the Company shall execute, the Trustee, at the Security Registrar's request, shall authenticate and such office or agency shall deliver in exchange therefor the Debt Security or Debt Securities of the same series that the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

(b) The Company shall keep, or cause to be kept, at its office or agency designated for such purpose in Philadelphia, Pennsylvania, or such other location designated by the Company a register or registers (herein referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall register the Debt Securities and the transfers and exchanges of Debt Securities as herein provided and which at all reasonable times shall be open for inspection by the Trustee. The registrar for the purpose of registering Debt Securities and transfers and exchanges of Debt Securities as herein provided shall initially be the Trustee and thereafter as may be appointed as authorized by Board Resolution (the "Security Registrar"), such appointment to be effective by such Person's acceptance as Security Registrar. The Trustee hereby accepts its appointment as the initial Security Registrar hereunder and the location of the Security Register shall initially be the Corporate Trust Office of the Trustee.

Upon surrender for transfer of any Debt Security at the office or agency of the Company designated for such purpose in Philadelphia, Pennsylvania, the Company shall execute, the Trustee, at the Security Registrar's request, shall authenticate and such office or agency shall deliver in the name of the transferee or transferees a new Debt Security or Debt Securities of the same series as the Debt Security presented for a like aggregate principal amount.

All Debt Securities presented or surrendered for exchange or registration of transfer, as provided in this Section, shall be accompanied (if so required by the Company or the Security Registrar) by a written instrument or instruments of transfer, in form satisfactory to the Company or the Security Registrar, duly executed by the registered holder or by such holder's duly authorized attorney in writing.

(c) No service charge shall be made for any exchange or registration of transfer of Debt Securities, or issue of new Debt Securities in case of partial redemption of any series, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, other than exchanges pursuant to Section 2.06, Section 3.03(b) and Section 9.04 not involving any transfer.

(d) The Company shall not be required (i) to issue, exchange or register the transfer of any Debt Securities during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the Outstanding Debt Securities of the same series and ending at the close of business on the day of such mailing, nor (ii) to register the transfer of or exchange any Debt Securities of any series or portions thereof called for redemption. The provisions of this Section 2.05 are, with respect to any Global Security, subject to Section 2.11 hereof.

SECTION 2.06. Temporary Securities. Pending the preparation of definitive Debt Securities of any series, the Company may execute, and the Trustee shall, upon receipt of a Company Order requesting the Trustee's authentication thereof, authenticate and deliver, temporary Debt Securities (printed, lithographed or typewritten) of any authorized denomination. Such temporary Debt Securities shall be substantially in the form of the definitive Debt Securities in lieu of which they are issued, but with such

omissions, insertions and variations as may be appropriate for temporary Debt Securities, all as may be determined by the Company. Every temporary Debt Security of any series shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Debt Securities of such series. Without unnecessary delay the Company will execute and will furnish definitive Debt Securities of such series and thereupon any or all temporary Debt Securities of such series may be surrendered in exchange therefor (without charge to the holders), at the office or agency of the Company designated for such purpose in Philadelphia, Pennsylvania, and the Trustee shall, upon receipt of a Company Order requesting the Trustee's authentication thereof, authenticate and such office or agency shall deliver in exchange for such temporary Debt Securities an equal aggregate principal amount of definitive Debt Securities of such series, unless the Company advises the Trustee to the effect that definitive Debt Securities need not be executed and furnished until further notice from the Company. Until so exchanged, the temporary Debt Securities of such series shall be entitled to the same benefits under this Indenture as definitive Debt Securities of such series authenticated and delivered hereunder.

SECTION 2.07. Mutilated, Destroyed, Lost or Stolen Debt Securities. In case any temporary or definitive Debt Security shall become mutilated or be destroyed, lost or stolen, the Company (subject to the next succeeding sentence) shall execute and the Trustee (subject as aforesaid) shall, upon receipt of a Company Order requesting the Trustee's authentication and delivery thereof, authenticate and deliver, a new Debt Security of the same series, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Debt Security, or in lieu of and in substitution for the Debt Security so destroyed, lost or stolen. In every case the applicant for a substituted Debt Security shall furnish to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and the Trustee evidence to their satisfaction of the destruction, loss or theft of the applicant's Debt Security and of the ownership thereof. Upon the issuance of any substituted Debt Security, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Debt Security that has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Debt Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Debt Security) if the applicant for such payment shall furnish to the Company and the Trustee such security or indemnity as they may require to save them harmless, and, in case of destruction, loss or theft, evidence to the satisfaction of the Company and the Trustee of the destruction, loss or theft of such Debt Security and of the ownership thereof.

Every replacement Debt Security issued pursuant to the provisions of this Section shall constitute an additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Debt Security shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Debt Securities of the same series duly issued hereunder. All Debt Securities shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Debt Securities, and shall preclude (to the extent lawful) any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.08. Cancellation. All Debt Securities surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Company or any paying agent, be delivered to the Trustee for cancellation, or, if surrendered to the Trustee, shall be cancelled by it, and no Debt Securities shall be issued in lieu thereof except as expressly required or permitted by any of the

provisions of this Indenture. On request of the Company at the time of such surrender, the Trustee shall deliver to the Company canceled Debt Securities held by the Trustee. In the absence of such request the Trustee may dispose of canceled Debt Securities in accordance with its standard procedures and deliver a certificate of disposition to the Company. If the Company shall otherwise acquire any of the Debt Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Debt Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.09. Benefits of Indenture. Nothing in this Indenture or in the Debt Securities, express or implied, shall give or be construed to give to any Person, other than the parties hereto and the holders of the Debt Securities (and, with respect to the provisions of Article XIV, the holders of Senior Indebtedness) any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all such covenants, conditions and provisions being for the sole benefit of the parties hereto and of the holders of the Debt Securities (and, with respect to the provisions of Article XIV, the holders of Senior Indebtedness).

SECTION 2.10. Authenticating Agent. So long as any of the Debt Securities of any series remain Outstanding, there may be an Authenticating Agent for any or all such series of Debt Securities which the Trustee shall have the right to appoint. Said Authenticating Agent shall be authorized to authenticate Debt Securities of such series issued upon exchange, transfer or partial redemption thereof, and Debt Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. All references in this Indenture to the authentication of Debt Securities by the Trustee shall be deemed to include authentication by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall be a corporation that (i) would be permitted under the Trust Indenture Act to act as Trustee under an indenture qualified thereunder, (ii) has a combined capital and surplus, as most recently reported or determined by it, required of the Trustee under Section 7.09 and sufficient under the laws of any jurisdiction under which it is organized or in which it is doing business to conduct a trust business, (iii) is otherwise authorized under such laws to conduct such business and (iv) is subject to supervision or examination by federal or state authorities. If at any time any Authenticating Agent shall cease to be eligible in accordance with these provisions, it shall resign immediately.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time (and upon receipt of a Company Order requesting the termination thereof shall) terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon resignation, termination or cessation of eligibility of any Authenticating Agent, the Trustee may appoint an eligible successor Authenticating Agent acceptable to the Company. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor hereunder as if originally named as an Authenticating Agent pursuant hereto.

SECTION 2.11. Global Securities. (a) If the Company shall establish pursuant to Section 2.01 that the Debt Securities of a particular series are to be issued as a Global Security or Securities, then the Company shall execute and the Trustee shall, in accordance with Section 2.04, authenticate and deliver, a Global Security that (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, all of the Outstanding Debt Securities of such series, (ii) shall be registered in the name of the Depository or its nominee, (iii) shall be delivered by the Trustee to the Depository or pursuant to the Depository's instruction and (iv) shall bear a legend substantially to the following effect: "Except as otherwise provided in Section 2.11 of the Indenture, this Debt Security may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor Depository or to a nominee of such successor Depository."

(b) Notwithstanding the provisions of Section 2.05, the Global Security or Securities of a series may be transferred, in whole but not in part and in the manner provided in Section 2.05, only to another nominee of the Depository for such series, or to a successor Depository for such series selected or approved by the Company or to a nominee of such successor Depository.

(c) If at any time the Depository for a series of the Debt Securities notifies the Company that it is unwilling or unable to continue as Depository for such series or if at any time the Depository for such series shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation, at a time when the Depository is required to be so registered to act as such Depository and a successor Depository for such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, this Section 2.11 shall no longer be applicable to the Debt Securities of such series and the Company will execute and, subject to Section 2.05 and upon receipt of an Officer's Certificate stating that the Company has determined that an event set forth above has occurred, the Trustee will authenticate and deliver the Debt Securities of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security or Securities of such series in exchange for such Global Security or Securities. In addition, the Company may at any time determine that the Debt Securities of any series shall no longer be represented by a Global Security or Securities and that the provisions of this Section 2.11 shall no longer apply to the Debt Securities of such series. In such event, the Company will execute and subject to Section 2.05, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and deliver the Debt Securities of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security or Securities of such series in exchange for such Global Security or Securities. Upon the exchange of the Global Security or Securities for such Debt Securities in definitive registered form without coupons, in authorized denominations, the Global Security or Securities shall be canceled by the Trustee in the manner set forth in Section 2.08. Such Debt Securities in definitive registered form issued in exchange for the Global Security or Securities pursuant to this Section 2.11(c) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Debt Securities to the Depository for delivery to the Persons in whose names such Debt Securities are so registered.

### ARTICLE III REDEMPTION OF DEBT SECURITIES AND SINKING FUND PROVISIONS

SECTION 3.01. Redemption. The Company may redeem the Debt Securities of any series issued hereunder on and after the dates and in accordance with the terms established for such series pursuant to Section 2.01 hereof.

SECTION 3.02. Notice of Redemption. (a) In case the Company shall desire to exercise such right to redeem all or, as the case may be, a portion of the Debt Securities of any series in accordance with the right reserved so to do, the Company shall, or shall cause the Trustee to, give notice of such redemption to holders of the Debt Securities of such series to be redeemed by mailing, first class postage prepaid, a notice of such redemption not less than 30 days and not more than 90 days before the date fixed for redemption of that series to such holders at their last addresses as they shall appear upon the Security Register unless a shorter period is specified in the Debt Securities to be redeemed. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the registered holder receives the notice. In any case, failure duly to give such notice to the holder of any Debt Security of any series designated for redemption in whole or in part, or any defect in the notice, shall not affect the validity of the proceedings for the redemption of any other Debt Securities of such series or any other series. In the case of any redemption of Debt Securities prior to the

expiration of any restriction on such redemption provided in the terms of such Debt Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with any such restriction.

Each such notice of redemption shall specify the date fixed for redemption and the redemption price at which Debt Securities of that series are to be redeemed, and shall state that payment of the redemption price of such Debt Securities to be redeemed will be made at the office or agency of the Company in Philadelphia, Pennsylvania or at the Corporate Trust Office, upon presentation and surrender of such Debt Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that from and after said date interest will cease to accrue and that the redemption is for a sinking fund, if such is the case. If less than all the Debt Securities of a series are to be redeemed, the notice to the holders of Debt Securities of that series to be redeemed in whole or in part shall specify the particular Debt Securities to be so redeemed. In case any Debt Security is to be redeemed in part only, the notice that relates to such Debt Security shall state the portion of the principal amount thereof to be redeemed, and shall state that on and after the redemption date, upon surrender of such Debt Security, a new Debt Security or Debt Securities of such series in principal amount equal to the unredeemed portion thereof will be issued.

(b) If less than all the Debt Securities of a series are to be redeemed, the Company shall give the Trustee at least 45 days' notice in advance of the date fixed for redemption as to the aggregate principal amount of Debt Securities of the series to be redeemed and the Company's selection of, by lot or in such other manner as it shall deem appropriate and fair in its discretion and that may provide for the selection of a portion or portions (equal to twenty-five U.S. dollars (\$25) or any integral multiple thereof) of the principal amount of such Debt Securities of a denomination larger than \$25, the Debt Securities to be redeemed in whole or in part.

The Company may, if and whenever it shall so elect, by delivery of a Company Order signed on its behalf by its President or any Vice President, instruct the Trustee or any paying agent to call all or any part of the Debt Securities of a particular series for redemption and to give notice of redemption in the manner set forth in this Section, such notice to be in the name of the Company or its own name as the Trustee or such paying agent may deem advisable. In any case in which notice of redemption is to be given by the Trustee or any such paying agent, the Company shall deliver or cause to be delivered to, or permit to remain with, the Trustee or such paying agent, as the case may be, such Security Register, transfer books or other records, or suitable copies or extracts therefrom, sufficient to enable the Trustee or such paying agent to give any notice by mail that may be required under the provisions of this Section.

SECTION 3.03. Payment Upon Redemption. (a) If the giving of notice of redemption shall have been completed as provided in Section 3.02, the Debt Securities or portions of Debt Securities of the series to be redeemed specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption and interest on such Debt Securities or portions of Debt Securities shall cease to accrue on and after the date fixed for redemption, unless the Company shall default in the payment of such redemption price and accrued interest with respect to any such Debt Security or portion thereof. On presentation and surrender of such Debt Securities on or after the date fixed for redemption at the place of payment specified in the notice, said Debt Securities shall be paid and redeemed at the applicable redemption price for such series, together with interest accrued thereon to the date fixed for redemption (but if the date fixed for redemption is an Interest Payment Date, the interest installment payable on such date shall be payable to the registered holder at the close of business on the applicable record date pursuant to Section 2.03).



(b) Upon presentation of any Debt Security of such series that is to be redeemed in part only, the Company shall execute and the Trustee shall, upon receipt of a Company Order requesting the Trustee's authentication thereof, authenticate and the office or agency where the Debt Security is presented shall deliver to the holder thereof, at the expense of the Company, a new Debt Security or Debt Securities of the same series, of authorized denominations in principal amount equal to the unredeemed portion of the Debt Security so presented.

SECTION 3.04. Sinking Fund. The provisions of Sections 3.04, 3.05 and 3.06 shall be applicable to any sinking fund for the retirement of Debt Securities of a series, except as otherwise specified as contemplated by Section 2.01 for Debt Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Debt Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of Debt Securities of any series is herein referred to as an "optional sinking fund payment." If provided for by the terms of Debt Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 3.05. Each sinking fund payment shall be applied to the redemption of Debt Securities of any series as provided for by the terms of Debt Securities of such series.

SECTION 3.05. Satisfaction of Sinking Fund Payments with Debt Securities. The Company (i) may deliver Outstanding Debt Securities of a series (other than any Debt Securities previously called for redemption) and (ii) may apply as a credit Debt Securities of a series that have been redeemed either at the election of the Company pursuant to the terms of such Debt Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Debt Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Debt Securities of such series required to be made pursuant to the terms of such Debt Securities as provided for by the terms of such series, provided that such Debt Securities have not been previously so credited. Such Debt Securities shall be received and credited for such purpose by the Trustee at the redemption price specified in such Debt Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 3.06. Redemption of Debt Securities for Sinking Fund. Not less than 45 days prior to each sinking fund payment date for any series of Debt Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of the series, the portion thereof, if any, that is to be satisfied by delivering and crediting Debt Securities of that series pursuant to Section 3.05 and the basis for such credit and will, together with such Officers' Certificate, deliver to the Trustee any Debt Securities to be so delivered. Not less than 30 days before each such sinking fund payment date, the Company shall select the Debt Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3.02. Such notice having been duly given, the redemption of such Debt Securities shall be made upon the terms and in the manner stated in Section 3.03.

#### ARTICLE IV COVENANTS OF THE COMPANY

SECTION 4.01. Payment of Principal, Premium and Interest. The Company will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on the Debt Securities of that series at the time and place and in the manner provided herein and established with respect to such Debt Securities.

SECTION 4.02. Maintenance of Office or Agency. So long as any series of the Debt Securities remain Outstanding, the Company agrees to maintain an office or agency in Philadelphia, Pennsylvania, with respect to each such series and at such other location or locations as may be designated as provided in this Section 4.02, where (i) Debt Securities of that series may be presented for payment, (ii) Debt Securities of that series may be presented as hereinabove authorized for registration of transfer and exchange, and (iii) notices and demands to or upon the Company in respect of the Debt Securities of that series and this Indenture may be given or served, such designation to continue with respect to such office or agency until the Company shall, by written notice signed by its President or a Vice President and delivered to the Trustee, designate some other office or agency for such purposes or any of them. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, notices and demands.

SECTION 4.03. Paying Agents. (a) The Company shall be the initial paying agent. If the Company shall appoint one or more paying agents for all or any series of the Debt Securities, other than the Trustee, the Company will cause each such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section:

(1) that it will hold all sums held by it as such paying agent for the payment of the principal of (and premium, if any) or interest on the Debt Securities of that series (whether such sums have been paid to it by the Company or by any other obligor of such Debt Securities) in trust for the benefit of the Persons entitled thereto;

(2) that it will give the Trustee notice of any failure by the Company to make any payment of the principal of (and premium, if any) or interest on the Debt Securities of that series when the same shall be due and payable;

(3) that it will, at any time during the continuance of any failure referred to in the preceding paragraph (a)(2) above, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent; and

(4) that it will perform all other duties of paying agent as set forth in this Indenture.

(b) If the Company shall act as its own paying agent with respect to any series of the Debt Securities, it will on or before each due date of the principal of (and premium, if any) or interest on Debt Securities of that series, set aside, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay such principal (and premium, if any) or interest so becoming due on Debt Securities of that series until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of such action, or any failure by it to take such action. Whenever the Company shall have one or more paying agents for any series of Debt Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Debt Securities of that series, deposit with the paying agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of this action or failure so to act.

(c) Notwithstanding anything in this Section to the contrary, (i) the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 11.05, and (ii) the Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other

purpose, pay, or direct any paying agent to pay, to the Trustee all sums held in trust by the Company or such paying agent, such sums to be held by the Trustee upon the same terms and conditions as those upon which such sums were held by the Company or such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

SECTION 4.04. Appointment to Fill Vacancy in Office of Trustee. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.05. Compliance with Consolidation Provisions. The Company will not, while any of the Debt Securities remain Outstanding, consolidate with, or merge into, or merge into itself, or sell or convey all or substantially all of its property to any other company unless the provisions of Article X hereof are complied with.

SECTION 4.06. Limitation on Dividends; Transactions with Affiliates. (a) If Debt Securities are issued to a PECO Trust or a trustee of such trust in connection with the issuance of Trust Securities by such PECO Trust and (i) there shall have occurred any event that would constitute an Event of Default or (ii) the Company shall be in default with respect to its payment or any obligations under the Preferred Securities Guarantee or Common Securities Guarantee relating to such Trust Securities, then the Company shall not declare or pay any dividend on, make any distributions with respect to, or redeem, purchase or make a liquidation payment with respect to, any of its capital stock.

(b) If Debt Securities are issued to a PECO Trust or a trustee of such trust in connection with the issuance of Trust Securities by such PECO Trust and the Company shall have given notice of its election to defer payments of interest on such Debt Securities by extending the interest payment period as provided in any indenture supplemental hereto and such period, or any extension thereof, shall be continuing, then the Company shall not declare or pay any dividend, or make any distributions with respect to, or redeem, purchase or make a liquidation payment with respect to, any of its capital stock.

SECTION 4.07. Covenants as to PECO Trust. In the event Debt Securities are issued and sold to a PECO Trust in connection with the issuance of Trust Securities by such trust, for so long as such Trust Securities remain outstanding, the Company will (i) maintain 100% direct or indirect ownership of the Common Securities of such trust; provided, however, that any permitted successor of the Company under the Indenture may succeed to the Company's ownership of the Common Securities, (ii) not cause, as sponsor of such trust, or permit, as holder of Common Securities of such trust, the dissolution, winding-up or termination of such trust, except in connection with a distribution of Debt Securities as provided in the Declaration and in connection with certain mergers, consolidations or amalgamations permitted by the Declaration and (iii) use its reasonable efforts to cause such trust (a) to remain a statutory trust, except in connection with a distribution of Debt Securities, the redemption of all of the Trust Securities of such PECO Trust or certain mergers, consolidations or amalgamations, each as permitted by the Declaration of such PECO Trust, and (b) to otherwise continue to be classified for United States federal income tax purposes as a grantor trust.

SECTION 4.08. Corporate Existence. The Company will, subject to the provisions of Article X, at all times maintain its corporate existence and right to carry on business and will duly procure all renewals and extensions thereof, and, to the extent necessary or desirable in the operation of its business, will use its best efforts to maintain, preserve and renew all of its rights, powers, privileges and franchises.

ARTICLE V  
SECURITYHOLDERS, LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 5.01. Company to Furnish Trustee Names and Addresses of Securityholders. The Company will furnish or cause to be furnished to the Trustee (a) on a quarterly basis on each regular record date (as defined in Section 2.03) a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of each series of Debt Securities as of such regular record date, provided that the Company shall not be obligated to furnish or cause to furnish such list at any time that the list shall not differ in any respect from the most recent List of Holders furnished to the Trustee by the Company and (b) at such other times as the Trustee may request in writing within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, that in either case, no such list need be furnished for any series for which the Trustee shall be the Security Registrar.

SECTION 5.02. Preservation Of Information; Communications With Securityholders. (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Debt Securities contained in the most recent List of Holders furnished to it as provided in Section 5.01 and as to the names and addresses of holders of Debt Securities received by the Trustee in its capacity as Security Registrar (if acting in such capacity).

(b) The Trustee may destroy any List of Holders furnished to it as provided in Section 5.01 upon receipt of a new List of Holders so furnished.

(c) Securityholders may communicate as provided in Section 312(b) of the Trust Indenture Act with other Securityholders with respect to their rights under this Indenture or under the Debt Securities.

(d) The Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

SECTION 5.03. Reports By the Company. (a) The Company covenants and agrees to file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) that the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports that may be required pursuant to Section 13 of the Exchange Act, in respect of a Debt Security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Company covenants and agrees to file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to transmit by mail, first class postage prepaid, or reputable overnight delivery service that provides for evidence of receipt, to the Securityholders, as their names and addresses appear upon the Security Register, within 30 days after the filing thereof with the

Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

(d) The Company covenants and agrees to furnish to the Trustee, not less often than annually, a brief Certificate from the Company's principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under the Indenture.

SECTION 5.04. Reports by the Trustee. (a) On or before June 15 in each year in which any of the Debt Securities are Outstanding, the Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report dated as of the preceding April 15, if and to the extent required under Section 313(a) of the Trust Indenture Act.

(b) The Trustee shall comply with Sections 313(b) and 313(c) of the Trust Indenture Act.

(c) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Trustee with the Company, with each stock exchange upon which any Debt Securities are listed (if so listed) and also with the Commission. The Company agrees to notify the Trustee when any Debt Securities become listed on any stock exchange.

#### ARTICLE VI

##### REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT

SECTION 6.01. Events of Default. (a) Whenever used herein with respect to Debt Securities of a particular series, "Event of Default" means any one or more of the following events that has occurred and is continuing:

(1) the Company defaults in the payment of any installment of interest upon any of the Debt Securities of that series, as and when the same shall become due and payable, and continuance of such default for a period of 30 days; provided, however, that a valid extension of an interest payment period by the Company in accordance with the terms established for such Debt Securities under Section 2.01, shall not constitute a default in the payment of interest for this purpose;

(2) the Company defaults in the payment of the principal of (or premium, if any, on) any of the Debt Securities of that series as and when the same shall become due and payable whether at maturity, upon redemption, by declaration or otherwise, or in any payment required by any sinking or analogous fund established with respect to that series; provided, however, that a valid extension of the maturity of such Debt Securities in accordance with the terms established for such Debt Securities under Section 2.01 shall not constitute a default in the payment of principal or premium, if any;

(3) the Company fails to observe or perform any other of its covenants or agreements with respect to that series contained in this Indenture or otherwise established with respect to that series of Debt Securities pursuant to Section 2.01 hereof (other than a covenant or agreement that has been expressly included in this Indenture solely for the benefit of one or more series of Debt Securities other than such series) for a period of 90 days after the date on which written notice of such failure, requiring the same to be remedied and stating that such notice is a "Notice of Default" hereunder, shall have been given to the Company by the Trustee, by registered or certified mail, or to the Company and the Trustee by the holders of at least 25% in principal amount of the Debt Securities of that series at the time Outstanding;

(4) the Company pursuant to or within the meaning of any Bankruptcy Law (i) commences a voluntary case, (ii) consents to the entry of an order for relief against it in an involuntary case, (iii) consents to the appointment of a Custodian of it or for all or substantially all of its property or (iv) makes a general assignment for the benefit of its creditors;

(5) a court of competent jurisdiction enters an order under any Bankruptcy Law that (i) is for relief against the Company in an involuntary case, (ii) appoints a Custodian of the Company for all or substantially all of its property, or (iii) orders the liquidation of the Company, and the order or decree remains unstayed and in effect for 90 days; or

(6) in the event Debt Securities are issued and sold to a PECO Trust or other trust of the Company in connection with the issuance of Trust Securities by such trust, such trust shall have voluntarily or involuntarily dissolved, wound-up its business or otherwise terminated its existence except in connection with (i) the distribution of Debt Securities to holders of Trust Securities in liquidation of their interests in such trust, (ii) the redemption of all outstanding Trust Securities of such trust, and (iii) mergers, consolidations or amalgamations, each as permitted by the Declaration of such trust.

(b) If an Event of Default described in clauses 1, 2, 3 or 6 of Section 6.01(a) above with respect to Debt Securities of any series at the time outstanding occurs and is continuing, unless the principal of all the Debt Securities of that series shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debt Securities of that series then Outstanding hereunder, by notice in writing to the Company (and to the Trustee, if given by such Securityholders), may declare the principal of all the Debt Securities of that series to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, notwithstanding anything contained in this Indenture or in the Debt Securities of that series or established with respect to that series pursuant to Section 2.01 to the contrary. If an Event of Default specified in clause (4) or (5) of Section 6.01(a) above occurs or is continuing, then the principal amount of all the Debt Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholder.

(c) At any time after the principal of the Securities of that series shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the holders of a majority in aggregate principal amount of the Securities of that series then Outstanding hereunder, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if: (i) the Company has paid or deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all the Securities of that series and the principal of (and premium, if any, on) any and all Securities of that series that shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that such payment is enforceable under applicable law, upon overdue installments of interest, at the rate per annum expressed in the Securities of that series to the date of such payment or deposit) and the amount payable to the Trustee under Section 7.06, and (ii) any and all Events of Default under the Indenture with respect to such series, other than the nonpayment of principal on Securities of that series that shall not have become due by their terms, shall have been remedied or waived as provided in Section 6.06.

No such rescission and annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

(d) In case the Trustee shall have proceeded to enforce any right with respect to Debt Securities of that series under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined

adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceedings had been taken.

(e) The Trustee shall provide Securityholders with notice of all Events of Default actually known to the Trustee within 90 days after any such Event of Default becomes actually known to the Trustee; provided, however, that, except in the case of default in the payment of the principal of or interest on any Debt Security, or in the payment of any sinking or purchase fund installment, such notice may be withheld if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interests of the Securityholders.

SECTION 6.02. Collection of Indebtedness and Suits for Enforcement by Trustee.

(a) The Company covenants that (1) in case it shall default in the payment of any installment of interest on any of the Securities of a series, or any payment required by any sinking or analogous fund established with respect to that series as and when the same shall have become due and payable, and such default shall have continued for a period of 90 days, or (2) in case it shall default in the payment of the principal of (or premium, if any, on) any of the Securities of a series when the same shall have become due and payable, whether upon maturity of the Securities of a series or upon redemption or upon declaration or otherwise, then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Securities of that series, the whole amount that then shall have become due and payable on all such Securities for principal (and premium, if any) or interest, or both, as the case may be, with interest upon the overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law and, if the Securities are held by a PECO Trust, without duplication of any other amounts paid by such trust in respect thereof) upon overdue installments of interest at the rate per annum expressed in the Securities of that series; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection and the amount payable to the Trustee under Section 7.06.

(b) If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name or as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or other obligor upon the Securities of that series and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or other obligor upon the Securities of that series, wherever situated.

(c) In case of any receivership, insolvency, liquidation, bankruptcy, reorganization, readjustment, arrangement, composition or judicial proceedings affecting the Company or its creditors or property, the Trustee shall have power to intervene in such proceedings and take any action therein that may be permitted by the court and shall (except as may be otherwise provided by law) be entitled to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents or counsel) and of the holders of Securities of such series allowed for the entire amount due and payable by the Company under this Indenture at the date of institution of such proceedings and for any additional amount that may become due and payable by the Company after such date, and to collect and receive any moneys or other property payable or deliverable on any such claim, and to distribute the same after the deduction of the amount payable to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the holders of Securities of such series to make such payments to the Trustee, and, in the event that

the Trustee shall consent to the making of such payments directly to such Securityholders, to pay to the Trustee any amount due it under Section 7.06.

(d) All rights of action and of asserting claims under this Indenture, or under any of the terms established with respect to Securities of that series, may be enforced by the Trustee without the possession of any of such Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee may be brought in its own name or as trustee of an express trust, and any recovery of judgment shall, after provision for payment to the Trustee of any amounts due under Section 7.06, be for the ratable benefit of the holders of the Securities of such series.

In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable remedy available to the Trustee by this Indenture or by law.

Nothing contained herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities of that series or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 6.03. Application of Moneys Collected. Any moneys collected by the Trustee pursuant to this Article with respect to a particular series of Securities shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Securities of that series, and notation thereon of the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and of all amounts payable to the Trustee under Section 7.06;

SECOND: To the payment of all Senior Indebtedness of the Company if and to the extent required by Article XIV; and

THIRD: To the payment of the amounts then due and unpaid upon Securities of such series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively.

SECTION 6.04. Limitation on Suits. No holder of any Security of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to the Securities of such series specifying such Event of Default, as hereinbefore provided; (ii) the holders of not less than 25% in aggregate principal amount of the Securities of such series then Outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name or as trustee hereunder; (iii) such holder or holders shall have offered to the Trustee such reasonable security and indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby reasonably satisfactory to the Trustee; and (iv) the Trustee for 60 days after its receipt of such notice,



request and offer of indemnity, shall have failed to institute any such action, suit or proceeding; and (v) during such 60 day period, the holders of a majority in principal amount of the Securities of that series do not give the Trustee a direction inconsistent with the request.

Notwithstanding anything contained herein to the contrary, any other provisions of this Indenture, the right of any holder of any Security to receive payment of the principal of (and premium, if any) and interest on such Security, as therein provided, on or after the respective due dates expressed in such Security (or in the case of redemption, on the redemption date), or to institute suit for the enforcement of any such payment on or after such respective dates or redemption date, shall not be impaired or affected without the consent of such holder, and by accepting a Security hereunder it is expressly understood, intended and covenanted by the taker and holder of every Security of such series with every other such taker and holder and the Trustee, that no one or more holders of Securities of such series shall have any right in any manner whatsoever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other of such Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities of series. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

SECTION 6.05. Rights and Remedies Cumulative; Delay or Omission Not Waiver. (a) Except as otherwise provided in Section 2.07, all powers and remedies given by this Article to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to such Securities.

(b) No delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article or by law to the Trustee or the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 6.06. Control by Securityholders. The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding, determined in accordance with Section 8.04, shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such series; provided, however, that such direction shall not be in conflict with any rule of law or with this Indenture or be unduly prejudicial to the rights of holders of Securities of any other series at the time Outstanding determined in accordance with Section 8.04. Subject to the provisions of Section 7.01, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that such direction may involve the Trustee in personal liability. The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding affected thereby, determined in accordance with Section 8.04, may on behalf of the holders of all of the Securities of such series waive any past default in the performance of any of the covenants contained herein or established pursuant to Section 2.01 with respect to such series and its consequences, except (i) a default in the payment of the principal of, or premium, if any, or interest on, any of the Securities of that series as and when the same shall become due by the terms of such Securities otherwise than by acceleration (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal and any premium has been deposited with the Trustee (in accordance with Section 6.01(c)) or (ii) a default in the covenants contained in Section 4.06(b). Upon any such

waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Securities of such series shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 6.07. Undertaking to Pay Costs. All parties to this Indenture agree, and each holder of any Securities by such holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding more than 10% in aggregate principal amount of the Outstanding Securities of any series, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security of such series, on or after the respective due dates expressed in such Security or established pursuant to this Indenture.

#### ARTICLE VII CONCERNING THE TRUSTEE

SECTION 7.01. Certain Duties and Responsibilities of Trustee. (a) The Trustee, prior to the occurrence of an Event of Default with respect to the Debt Securities of a series and after the curing of all Events of Default with respect to the Debt Securities of that series that may have occurred, (i) shall undertake to perform with respect to the Debt Securities of such series only such duties that are specifically required to be performed by it under this Indenture or the Trust Indenture Act and no others, and (ii) in the absence of bad faith on the part of the Trustee, the Trustee may with respect to the Debt Securities of such series conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; however, in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the same to determine whether or not they conform to the requirements of this Indenture (but shall not be required to confirm, investigate or otherwise determine the accuracy of mathematical calculations or other facts stated therein). In case an Event of Default with respect to the Securities of a series has occurred (that has not been cured or waived), the Trustee shall exercise with respect to Debt Securities of that series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

- (1) this paragraph (b) does not limit the effect of the first sentence of Section 7.01(a);
- (2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved that the Trustee, was negligent in ascertaining the pertinent facts; and
- (3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Company or the holders of not less than a majority in principal amount of the Debt Securities of any series at the time

Outstanding (including such direction relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to the Debt Securities of that series).

(c) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or indemnity reasonably satisfactory to the Trustee against such risk is not reasonably assured to it.

(d) Every provision of this Indenture and any document pursuant to which the Trustee acts that in any way relates to the Trustee is subject to Sections 7.01 and 7.02 hereof.

(e) In the event that the Trustee is unable to decide between alternative courses of action permitted or required by it under this Indenture, or is unsure as to the application of any provision of this Indenture, or any such provision is ambiguous as to its application or in conflict with any other provision of this Indenture, permits any determination by the Trustee, or is silent or incomplete as to the course of action that the Trustee is required to take with respect to a particular set of facts, the Trustee may give notice (in such form as shall be appropriate under the circumstances) to the Company and/or the Securityholders requesting instruction from any of them, and to the extent that the Trustee acts or refrains from acting in good faith in accordance with any such instruction received, the Trustee shall not be personally liable, on account of such action or inaction, to any Person. If the Trustee shall not have received appropriate instruction within 10 days after giving notice of its request therefor (or within such reasonable shorter period of time as may be specified in such notice or as may be necessary under the circumstances), the Trustee may, but shall be under no duty to, take or refrain from taking action and shall have no personal liability to any Person for such action or inaction.

SECTION 7.02. Certain Rights of Trustee. Except as otherwise provided in Section 7.01:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by a Board Resolution or a Company Order signed by the President, or any Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer thereof (unless other evidence in respect thereof is specifically prescribed herein);

(c) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in reliance thereon;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities that may be incurred by it in compliance therewith; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to a series of the Debt Securities (that has not been cured or waived) to exercise with respect to Debt Securities of that series such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their

exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(e) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security, or other papers or documents, but the Trustee, in its sole discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine, during business hours and upon reasonable notice, the books, records and premises of the Company, personally or by agent or attorney and shall incur no personal liability to any Person by reason of such inquiry or investigation. The reasonable expense of every such examination shall be paid by the Company or, if paid by the Trustee, shall be repaid by the Company upon demand;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, require and rely upon an Officers' Certificate.

SECTION 7.03. Trustee Not Responsible for Recitals or Issuance of Debt Securities. (a) The recitals contained herein and in the Debt Securities shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same.

(b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Debt Securities.

(c) The Trustee shall not be accountable for the use or application by the Company of any of the Debt Securities or of the proceeds of such Debt Securities, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture or established pursuant to Section 2.01, or for the use or application of any moneys received by any paying agent other than the Trustee.

SECTION 7.04. May Hold Debt Securities. The Trustee or any paying agent or Security Registrar, in its individual or any other capacity, may become the owner or pledgee of Debt Securities with the same rights it would have if it were not Trustee, paying agent or Security Registrar.

SECTION 7.05. Moneys Held in Trust. Subject to the provisions of Section 11.05, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall not be liable for interest on any moneys held by it hereunder except as it may otherwise agree with the Company.

SECTION 7.06. Compensation and Reimbursement. (a) The Company covenants and agrees to pay to the Trustee, and the Trustee shall be entitled to, such reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), as the Company and the Trustee may from time to time agree in writing, for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, and, except as otherwise expressly provided herein, the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants and agrees to indemnify the Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any loss, liability or expense, to the extent incurred without negligence or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

(b) The obligations of the Company under this Section to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture and the resignation or removal of the Trustee. Such additional indebtedness shall be secured by a lien prior to that of the Debt Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Debt Securities.

(c) When the Trustee renders services or incurs expenses after the occurrence of a Default specified in Section 6.01, the compensation for such services and expenses of the Trustee hereunder are intended by the Company and the Trustee to constitute expenses of administration under any Bankruptcy Law.

SECTION 7.07. Reliance on Officers' Certificate. Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.08. Qualification; Conflicting Interests. If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Company shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

SECTION 7.09. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee with respect to the Debt Securities issued hereunder which shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or other Person permitted to act as trustee by the Commission, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million U.S. dollars (\$50,000,000), and subject to supervision or examination by Federal, State, Territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be

deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10. Resignation and Removal; Appointment of Successor. (a) The Trustee or any successor hereafter appointed, may at any time resign with respect to the Debt Securities of one or more series by giving written notice thereof to the Company and the Guarantor and by transmitting notice of resignation by mail, first class postage prepaid, to the Securityholders of such series, as their names and addresses appear upon the Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor Trustee with respect to Debt Securities of such series by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Debt Securities of such series, or any Securityholder of that series who has been a bona fide holder of a Debt Security or Debt Securities for at least six months may, subject to the provisions of Section 6.07, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any one of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of subsection (a) of Section 7.01 after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Debt Security or Debt Securities for at least six months; or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder; or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or commence a voluntary bankruptcy proceeding, or a receiver of the Trustee or of its property shall be appointed or consented to, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee with respect to all Debt Securities and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.07, unless the Trustee's duty to resign is stayed as provided herein, any Securityholder who has been a bona fide holder of a Debt Security or Debt Securities for at least six months may, on behalf of that holder and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Debt Securities of any series at the time Outstanding may at any time remove the Trustee with respect to such series by so notifying the Trustee and the Company and may appoint a successor Trustee for such series with the consent of the Company.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee with respect to the Debt Securities of a series pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

(e) Any successor trustee appointed pursuant to this Section may be appointed with respect to the Debt Securities of one or more series or all of such series, and at any time there shall be only one Trustee with respect to the Debt Securities of any particular series.

SECTION 7.11. Acceptance of Appointment By Successor. (a) In case of the appointment hereunder of a successor trustee with respect to all Debt Securities, every such successor trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor trustee all the rights, powers, and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor trustee with respect to the Debt Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor trustee with respect to the Debt Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debt Securities of that or those series to which the appointment of such successor trustee relates, (2) shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debt Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any act or failure to act on the part of any other Trustee hereunder; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Debt Securities of that or those series to which the appointment of such successor trustee relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture, and each such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debt Securities of that or those series to which the appointment of such successor trustee relates; but, on request of the Company or any successor trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Debt Securities of that or those series to which the appointment of such successor trustee relates.

(c) Upon request of any such successor trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor trustee all such rights,, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor trustee shall accept its appointment unless at the time of such acceptance such successor trustee shall be qualified and eligible under this Article.

(e) Upon acceptance of appointment by a successor trustee as provided in this Section, the Company shall transmit notice of the succession of such trustee hereunder by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register. If the Company fails to transmit such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be transmitted at the expense of the Company.

SECTION 7.12. Merger, Conversion, Consolidation or Succession to Business. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided that such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any Debt Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee permitted under this Section 7.12 may adopt such authentication and deliver the Debt Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Debt Securities.

SECTION 7.13. Preferential Collection of Claims Against the Company. The Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship described in Section 311(b) of the Trust Indenture Act. A Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent included therein.

#### ARTICLE VIII CONCERNING THE SECURITYHOLDERS

SECTION 8.01. Evidence of Action by Securityholders. Whenever in this Indenture it is provided that the holders of a majority or specified percentage in aggregate principal amount of the Debt Securities of a particular series may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such majority or specified percentage of that series have joined therein may be evidenced by any instrument or any number of instruments of similar tenor executed by such holders of Debt Securities of that series in Person or by agent or proxy appointed in writing.

If the Company shall solicit from the Securityholders of any series any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for such series for the determination of Securityholders (entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action) but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Securityholders of record as provided by the Security Registrar at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of Outstanding Debt Securities of that series have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the Outstanding Debt Securities of that series shall be computed as of the record date; provided, however, that no such authorization, request, demand, agreement, consent, direction, notice, waiver or other action by such Securityholders on the record date



shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 8.02. Proof of Execution by Securityholders. Subject to the provisions of Section 8.01, proof of the execution of any instrument by a Securityholder (such proof will not require notarization) or his agent or proxy and proof of the holding by any Person of any of the Debt Securities shall be sufficient if made in the following manner:

- (a) The fact and date of the execution by any such Person of any instrument may be proved in any reasonable manner acceptable to the Trustee.
- (b) The ownership of Debt Securities shall be proved by the Security Register of such Debt Securities or by a certificate of the Security Registrar thereof.
- (c) The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 8.03. Who May be Deemed Owners. Prior to the due presentment for registration of transfer of any Debt Security, the Company, the Trustee, any paying agent and any Security Registrar may deem and treat the Person in whose name such Debt Security shall be registered upon the Security Register as the absolute owner of such Debt Security (whether or not such Debt Security shall be overdue and notwithstanding any notice of ownership or writing thereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal of, premium, if any, and (subject to Section 2.03) interest on such Debt Security and for all other purposes; and neither the Company nor Guarantor nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

SECTION 8.04. Certain Debt Securities Owned by Company Disregarded. In determining whether the holders of the requisite aggregate principal amount of Debt Securities of a particular series have concurred in any direction, consent, waiver or other action under this Indenture, the Debt Securities of that series that are owned by the Company or any other obligor on the Debt Securities of that series or by any Person directly or indirectly controlling or controlled by or under common control with the Company or any other obligor (including any Affiliate of the Company or such other obligor) on the Debt Securities of that series shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action, only Debt Securities of such series that the Trustee actually knows are so owned shall be so disregarded. The Debt Securities so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right so to act with respect to such Debt Securities and that the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or the Guarantor or any such other obligor (including any Affiliate of the Company or such other obligor). In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 8.05. Actions Binding on Future Securityholders. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of a majority or specified percentage in aggregate principal amount of the Debt Securities of a particular series in connection with such action, any holder of a Debt Security of that series that is shown by the evidence to be included in the Debt Securities the holders of which have consented to such action may, by filing written notice with the Trustee, and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Debt Security. Except as aforesaid, any such action taken by the holder of any

Debt Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Debt Security, and of any Debt Security issued in exchange therefor, on registration of transfer thereof or in place thereof, irrespective of whether or not any notation in regard thereto is made upon such Debt Security. Any action taken by the holders of a majority or specified percentage in aggregate principal amount of the Debt Securities of a particular series in connection with such action shall be conclusively binding upon the Company, the Trustee and the holders of all the Debt Securities of that series.

ARTICLE IX  
SUPPLEMENTAL INDENTURES

SECTION 9.01. Supplemental Indentures Without the Consent of Securityholders. In addition to any supplemental indenture otherwise authorized by this Indenture, the Company and the Guarantor and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect), without the consent of the Securityholders, for one or more of the following purposes:

(a) to cure any ambiguity, defect or inconsistency herein or in the Debt Securities of any series;

(b) to comply with Article X;

(c) to provide for uncertificated Debt Securities in addition to or in place of certificated Debt Securities;

(d) to add to the covenants of the Company for the benefit of the holders of all or any series of Debt Securities (and if such covenants are to be for the benefit of less than all series of Debt Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company;

(e) to add to, delete from, or revise the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of Debt Securities, as herein set forth;

(f) to make any change that does not adversely affect the rights of any Securityholder in any material respect; or

(g) to provide for the issuance of and establish the form and terms and conditions of the Debt Securities of any series as provided in Section 2.01, to establish the form of any certifications required to be furnished pursuant to the terms of this Indenture or any series of Debt Securities, or to add to the rights of the holders of any series of Debt Securities.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Debt Securities at the time Outstanding notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. Supplemental Indentures With Consent of Securityholders. With the consent (evidenced as provided in Section 8.01) of the holders of not less than a majority in aggregate principal amount of the Debt Securities of each series affected by such supplemental indenture or indentures at the time Outstanding, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner not covered by Section 9.01 the rights of the holders of the Debt Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the holders of each Debt Security then Outstanding and affected thereby, (i) extend the fixed maturity of any Debt Securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Debt Security so affected or (ii) reduce the aforesaid percentage of Debt Securities, the holders of which are required to consent to any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders of any series affected thereby under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.03. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture pursuant to the provisions of this Article or of Section 10.01, this Indenture shall, with respect to such series, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Debt Securities of the series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Debt Securities Affected by Supplemental Indentures. Debt Securities of any series, affected by a supplemental indenture, authenticated and delivered after the execution of such supplemental indenture pursuant to the provisions of this Article or of Section 10.01, may bear a notation in form approved by the Company, provided such form meets the requirements of any exchange upon which such series may be listed, if any, as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Debt Securities of that series so modified as to conform, in the opinion of the Board of Directors of the Company, to any modification of this Indenture contained in any, such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Debt Securities of that series then outstanding.

SECTION 9.05. Execution of Supplemental Indentures. Upon the request of the Company, accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders required to consent thereto as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section 9.05, the Trustee shall transmit by mail, first class postage prepaid, a notice, setting forth in general terms the substance of such supplemental indenture, to the Securityholders of all series affected thereby as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

ARTICLE X  
SUCCESSOR CORPORATION

SECTION 10.01. Company May Consolidate, Etc. Nothing contained in this Indenture or in any of the Debt Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or the Guarantor, as the case may be, or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (premium, if any) and interest on all of the Debt Securities of all series in accordance with the terms of each series, according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series pursuant to Section 2.01 to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act, as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the entity formed by such consolidation, or into which the Company shall have been merged, or by the entity which shall have acquired such property.

SECTION 10.02. Successor Corporation Substituted. (a) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Debt Securities of all series Outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Debt Securities pursuant to Section 2.01 to be performed by the Company, with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named as the Company herein.

(b) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition, such changes in phraseology and form (but not in substance) may be made in the Debt Securities thereafter to be issued as may be appropriate.

(c) Nothing contained in this Indenture or in any of the Debt Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other Person (whether or not affiliated with the Company).

SECTION 10.03. Evidence of Consolidation, Etc. to Trustee. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

ARTICLE XI  
SATISFACTION AND DISCHARGE

SECTION 11.01. Satisfaction and Discharge of Indenture. If at any time: (a) the Company shall have delivered to the Trustee for cancellation all Debt Securities of a series theretofore authenticated (other than any Debt Securities that shall have been destroyed, lost or stolen and that shall have been replaced or paid as provided in Section 2.07) and Debt Securities for whose payment money or Governmental Obligations have theretofore been deposited in trust or segregated and held in trust by the Company or the Guarantor (and thereupon repaid to the Company or discharged from such trust, as provided in Section 11.05); or (b) all such Debt Securities of a particular series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and, in the case of (a) or (b) above, the Company shall deposit or cause to be deposited with the Trustee as trust funds the entire amount in moneys or Governmental Obligations or a combination thereof, sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay at maturity or upon redemption all Debt Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder with respect to such series by the Company; then if the Company has delivered to the Trustee an Opinion of Counsel based on the fact that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date hereof, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and such opinion shall confirm that, the holders of the Debt Securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to United States federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred, this Indenture shall thereupon cease to be of further effect with respect to such series except for the provisions of Sections 2.03, 2.05, 2.07, 4.01, 4.02, 4.03 and 7.10, that shall survive until the date of maturity or redemption date, as the case may be, and Sections 7.06 and 11.05, that shall survive to such date and thereafter, and the Trustee, on demand of the Company and at the cost and expense of the Company shall execute proper instruments acknowledging satisfaction of and discharging this Indenture with respect to such series.

SECTION 11.02. Discharge of Obligations. If at any time all Debt Securities of a particular series not heretofore delivered to the Trustee for cancellation or that have not become due and payable as described in Section 11.01 shall have been paid by the Company by depositing irrevocably with the Trustee as trust funds moneys or an amount of Governmental Obligations sufficient to pay at maturity or upon redemption all such Debt Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder by the Company with respect to such series, then after the date such moneys or Governmental Obligations, as the case may be, are deposited with the Trustee then, if the Company has delivered to the Trustee an Opinion of Counsel based on the fact that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date hereof, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and such opinion shall confirm that, the holders of the Debt Securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to United States federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such

deposit, defeasance and discharge had not occurred, the obligations of the Company, under this Indenture with respect to such series shall cease to be of further effect except for the provisions of Sections 2.03, 2.05, 2.07, 4.01, 4.02, 4.03, 7.06, 7.10 and 11.05 hereof that shall survive until such Debt Securities shall mature and be paid. Thereafter, Sections 7.06 and 11.05 shall survive.

SECTION 11.03. Deposited Moneys to be Held in Trust. All moneys or Governmental Obligations deposited with the Trustee pursuant to Sections 2.11 or 11.02 shall be held in trust and shall be available for payment as due, either directly or through any paying agent (including the Company acting as its own paying agent), to the holders of the particular series of Debt Securities for the payment or redemption of which such moneys or Governmental Obligations have been deposited with the Trustee.

SECTION 11.04. Payment of Moneys Held by Paying Agents. In connection with the satisfaction and discharge of this Indenture, all moneys or Governmental Obligations then held by any paying agent under the provisions of this Indenture shall, upon demand of the Company, be paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys or Governmental Obligations.

SECTION 11.05. Repayment to Company. Any moneys or Governmental Obligations deposited with any paying agent or the Trustee, or then held by the Company, in trust for payment of principal of or premium or interest on the Debt Securities of a particular series that are not applied but remain unclaimed by the holders of such Debt Securities for at least two years after the date upon which the principal of (and premium, if any) or interest on such Debt Securities shall have respectively become due and payable, shall be repaid to the Company on May 31 of each year or (if then held by the Company) shall be discharged from such trust; and thereupon the paying agent and the Trustee shall be released from all further liability with respect to such moneys or Governmental Obligations, and the holder of any of the Debt Securities entitled to receive such payment shall thereafter, as an unsecured general creditor, look only to the Company for the payment thereof.

#### ARTICLE XII

#### IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.01. No Recourse. No recourse under or upon any obligation, covenant or agreement of this Indenture, or of any Debt Security, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, past, present or future as such, of the Company or of any predecessor or successor corporation, either directly or through the Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors as such, of the Company or of any predecessor or successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Debt Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Debt Securities or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Debt Securities.

ARTICLE XIII  
MISCELLANEOUS PROVISIONS

SECTION 13.01. Effect on Successors and Assigns. All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Company shall bind successors and assigns, whether so expressed or not.

SECTION 13.02. Actions by Successor. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company or the Guarantor shall and may be done and performed with like force and effect by the corresponding board, committee or officer of any corporation that shall at the time be the lawful successor of the Company.

SECTION 13.03. Surrender of Company Powers. The Company by instrument in writing executed by authority of 2/3 (two-thirds) of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company, and thereupon such power so surrendered shall terminate both as to the Company and as to any successor corporation.

SECTION 13.04. Notices. Except as otherwise expressly provided herein, any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Debt Securities to or on the Company may be given or served by being deposited first class postage prepaid in a post-office letterbox addressed (until another address is filed in writing by the Company with the Trustee), as follows:

PECO Energy Company  
2301 Market Street  
Philadelphia, PA 19101  
Attention: Treasurer

Any notice, election, request or demand by the Company or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the Corporate Trust Office of the Trustee.

SECTION 13.05. Governing Law. This Indenture and each Debt Security shall be deemed to be a contract made under the internal laws of the Commonwealth of Pennsylvania, and for all purposes shall be construed in accordance with the laws thereof.

SECTION 13.06. Treatment of the Debt Securities as Debt. It is intended that the Debt Securities will be treated as indebtedness and not as equity for federal income tax purposes. The provisions of this Indenture shall be interpreted to further this intention.

SECTION 13.07. Compliance Certificates and Opinions. (a) Upon any application, request or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application, request or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application, request or demand, no additional certificate or opinion need be furnished.

(b) Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant in this Indenture shall include (1) a statement that the Person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

SECTION 13.08. Payments on Business Days. Except as provided pursuant to Section 2.01 pursuant to a Board Resolution, and as set forth in an Officers' Certificate, or established in one or more indentures supplemental to this Indenture, in any case where the date of maturity of interest or principal of any Debt Security or the date of redemption of any Debt Security shall not be a Business Day, then payment of interest or principal (and premium, if any) may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of maturity or redemption, and no interest shall accrue for the period after such nominal date.

SECTION 13.09. Conflict with Trust Indenture Act. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.10. Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 13.11. Separability. In case any one or more of the provisions contained in this Indenture or in the Debt Securities of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Debt Securities, but this Indenture and such Debt Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.12. Assignment. The Company will have the right at all times to assign any of its respective rights or obligations under this Indenture to a direct or indirect wholly-owned Subsidiary of the Company, provided that, in the event of any such assignment, the Company will remain liable for all such obligations. Subject to the foregoing, the Indenture is binding upon and inures to the benefit of the parties thereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties thereto.

SECTION 13.13. Acknowledgment of Rights. The Company acknowledges that, with respect to any Debt Securities held by a PECO Trust or a trustee of such trust, if the Property Trustee of such Trust fails to enforce its rights under this Indenture as the holder of the series of Debt Securities held as the assets of such PECO Trust, any holder of Preferred Securities may, after a period of 30 days has elapsed from such holder's written request to such Property Trustee to enforce such rights, institute legal proceedings directly against the Company to enforce such Property Trustee's rights under this Indenture without first instituting any legal proceedings against such Property Trustee or any other person or entity.



ARTICLE XIV  
SUBORDINATION OF DEBT SECURITIES

SECTION 14.01. Subordination Terms. The payment by the Company of the principal of, premium, if any, and interest on any series of Debt Securities issued hereunder shall be subordinated to the extent set forth in an indenture supplemental hereto or Officers' Certificate pursuant to Section 2.01 above relating to such Debt Securities.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

PECO ENERGY COMPANY

Attest: \_\_\_\_\_ By: /s/ J. Barry Mitchell  
Name: J. Barry Mitchell  
Vice President and Treasurer

WACHOVIA BANK, NATIONAL ASSOCIATION,  
as Trustee

Attest: \_\_\_\_\_ By: /s/ George J. Rayzis  
Name: George J. Rayzis  
Vice President

PREFERRED SECURITIES GUARANTEE AGREEMENT

Between

PECO Energy Company

(as Guarantor)

and

Wachovia Trust Company, National Association

(as Trustee)

dated as of

June 24, 2003

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CROSS-REFERENCE TABLE\*

| Section of<br>Trust Indenture Act of 1939, as amended | Section of Guarantee Agreement |
|---|--------------------------------|
| 310(a)  | 4.01(a)                        |
| 310(b)  | 4.01(c), 2.08                  |
| 310(c)  | Inapplicable                   |
| 311(a)  | 2.02(b)                        |
| 311(b)  | 2.02(b)                        |
| 311(c)  | Inapplicable                   |
| 312(a)  | 2.02(a)                        |
| 312(b)  | 2.02(b)                        |
| 313   | 2.03                           |
| 314(a)  | 2.04                           |
| 314(b)  | Inapplicable                   |
| 314(c)  | 2.05                           |
| 314(d)  | Inapplicable                   |
| 314(e)  | 1.01, 2.05, 3.02               |
| 314(f)  | 2.01, 3.02                     |
| 315(a)  | 3.01(d)                        |
| 315(b)  | 2.07                           |
| 315(c)  | 3.01                           |
| 315(d)  | 3.01(d)                        |
| 316(a)  | 1.01, 2.06, 5.04               |
| 316(b)  | 5.03                           |
| 316(c)  | 9.02                           |
| 317(a)  | Inapplicable                   |
| 317(b)  | Inapplicable                   |
| 318(a)  | 2.01(b)                        |
| 318(b)  | 2.01                           |
| 318(c)  | 2.01(a)                        |

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\* This Cross-Reference Table does not constitute part of the Preferred Securities Guarantee Agreement and shall not affect the interpretation of any of its terms or provisions.

## PREFERRED SECURITIES GUARANTEE AGREEMENT

This PREFERRED SECURITIES GUARANTEE AGREEMENT ("Guarantee Agreement"), dated as of June 24, 2003 between PECO ENERGY COMPANY, a Pennsylvania corporation (the "Company"), as guarantor (the "Guarantor"), and WACHOVIA TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association, as trustee (the "Trustee"), for the benefit of the Holders (as defined herein) from time to time of the Preferred Securities (as defined herein) of PECO ENERGY CAPITAL TRUST IV, a Delaware statutory trust (the "Trust").

WHEREAS, pursuant to an Amended and Restated Declaration of Trust (the "Declaration of Trust"), dated as of June 24, 2003, among Wachovia Trust Company, National Association, as Delaware Trustee and Property Trustee, the other Trustees named therein, the Company, as Sponsor, and the holders of undivided beneficial interests in the assets of the Trust, the Trust is issuing as of June 24, 2003 \$100,000,000 aggregate liquidation amount of its 5.75% Trust Preferred Securities (the "Preferred Securities") representing preferred undivided beneficial interests in the assets of the Trust and having the terms set forth in the Declaration of Trust;

WHEREAS, the Preferred Securities will be issued by the Trust and the proceeds thereof will be used to purchase the Debentures of the Company, which will be held by the Trust as trust assets; and

WHEREAS, as incentive for the Holders to purchase the Preferred Securities, the Guarantor desires to irrevocably and unconditionally agree, to the extent set forth herein, to pay to the Holders the Guarantee Payments (as defined herein) and to make certain other payments on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the payment for Preferred Securities by each Holder thereof, which payment the Guarantor hereby agrees shall benefit the Guarantor, the Guarantor executes and delivers this Guarantee Agreement for the benefit of the Holders from time to time of the Preferred Securities.

### Article I DEFINITIONS

Section 1.01 Definitions. As used in this Guarantee Agreement, the terms set forth below shall, unless the context otherwise requires, have the following meanings. Capitalized or otherwise defined terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Declaration of Trust as in effect on the date hereof.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Common Securities" means the securities representing common undivided beneficial interests in the assets of the Trust.

"Covered Person" means any Holder or beneficial owner of Preferred Securities.

"Debentures" means the series of Deferrable Interest Subordinated Debentures of the Guarantor designated the "5.75% Deferrable Interest Subordinated Debentures due June 15, 2033" held by the Property Trustee (as defined in the Declaration of Trust) of the Trust.

"Event of Default" means a failure by the Guarantor to perform any of its payment or other obligations under this Guarantee Agreement.

"Guarantee Payments" means the following payments or distributions, without duplication, with respect to the Preferred Securities, to the extent not paid or made by or on behalf of the Trust: (i) any accrued and unpaid Distributions (as defined in the Declaration of Trust) that are required to be paid on such Preferred Securities to the extent the Trust has funds legally available therefor to make such payment; (ii) the redemption price, including all accrued and unpaid Distributions to the date of redemption (the "Redemption Price"), with respect to the Preferred Securities called for redemption by the Trust to the extent that the Trust has funds legally available therefor to make such payment; and (iii) upon a voluntary or involuntary dissolution, winding-up or termination of the Trust (other than in connection with the distribution of Debentures to the Holders), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities to the date of payment, to the extent the Trust has funds legally available therefor, and (b) the amount of assets of the Trust remaining available for distribution to Holders in liquidation of the Trust (in either case, the "Liquidation Distribution").

"Holder" means any holder, as registered on the books and records of the Trust, of any Preferred Securities; provided, however, that in determining whether the holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, "Holder" shall not include the Guarantor or any Affiliate of the Guarantor.

"Indemnified Person" means the Trustee, any Affiliate of the Trustee, or any officers, directors, shareholders, members, partners, employees, representatives, nominees, custodians or agents of the Trustee.

"Indenture" means the Indenture, dated as of June 24, 2003, between the Company and Wachovia Bank, National Association, as trustee, as heretofore supplemented and as supplemented by the Section 2.01 Certificate.

"Majority in liquidation amount of the Preferred Securities" means, except as provided in the Trust Indenture Act, a vote by Holder(s) of Preferred Securities of more than 50% of the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to the date upon which the voting percentages are determined) of all Preferred Securities outstanding at the time of determination.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Guarantor, and delivered to the Trustee. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Guarantee Agreement (other than pursuant to Section 314(d)(4) of the Trust Indenture Act) shall include:

(a) a statement that each officer signing the Officers' Certificate has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers' Certificate;

(c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Other Guarantees" means all guarantees issued, or to be issued, by the Guarantor with respect to the preferred or common securities similar to the Preferred Securities and the Common Securities (as defined in the Declaration of Trust), as the case may be, issued by other trusts established, or to be established, by the Guarantor, in each case similar to the Trust. "Other Guarantees" shall include: the Payment and Guarantee Agreement dated as of April 6, 1998 executed by the Guarantor for the benefit of the holders of the Series D Preferred Securities (as defined therein) of PECO Energy Capital, L.P.

"Other Indebtedness" means all subordinated debentures, debentures or other indebtedness issued by the Guarantor from time to time and sold to trusts established, or to be established, by the Guarantor, in each case similar to the Trust. "Other Indebtedness" shall include the 7.38% Deferrable Interest Subordinated Debentures due 2028.

"Person" means any individual, corporation, estate, partnership, limited liability company, joint venture, association, trust, unincorporated organization or government or any agency or political subdivision thereof or any other entity of whatever nature.

"Responsible Officer" means, with respect to the Trustee, any managing director, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, or any other officer of the Corporate Trust Office of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Section 2.01 Certificate" means the officers' certificate of the Guarantor issued pursuant to Section 2.01 of the Indenture and establishing the Debentures.

"Successor Trustee" means a successor Trustee possessing the qualifications to act as Trustee under Section 4.01.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

"Trustee" means Wachovia Trust Company, National Association until a Successor Trustee has been appointed and has accepted such appointment pursuant to the terms of this Guarantee Agreement and thereafter means each such Successor Trustee.



ARTICLE II  
TRUST INDENTURE ACT

Section 2.01 Trust Indenture Act; Application.

(a) This Guarantee Agreement is subject to the provisions of the Trust Indenture Act that are required to be part of this Guarantee Agreement and shall, to the extent applicable, be governed by such provisions.

(b) If and to the extent that any provision of this Guarantee Agreement limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

Section 2.02 Lists of Holders of Securities.

(a) The Guarantor shall furnish or cause to be furnished to the Trustee a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders ("List of Holders") (i) semiannually, within 15 days before and not later than June 1 and December 1 in each year, and (ii) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Guarantor of any such request, a List of Holders as of a date not more than 15 days prior to the time such list is furnished; provided that, the Guarantor shall not be obligated to provide such List of Holders at any time the List of Holders does not differ from the most recent List of Holders given to the Trustee by the Guarantor or at any time the Trustee is the Securities Registrar under the Declaration of Trust. The Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders.

(b) The Trustee shall comply with its obligations under Sections 311(a), 311(b) and 312(b) of the Trust Indenture Act.

Section 2.03 Reports by the Trustee. Within 60 days after May 15 of each year commencing May 15, 2004, the Trustee shall provide to the Holders of the Preferred Securities such reports as are required by Section 313(a) of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Trustee shall also comply with the other requirements of Section 313 of the Trust Indenture Act.

Section 2.04 Periodic Reports to Trustee. The Guarantor shall provide to the Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any) in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act, and shall provide, within 120 days after the end of each of its fiscal years, the compliance certificate required by Section 314(a)(4) of the Trust Indenture Act in the form and in the manner required by such Section.

Section 2.05 Evidence of Compliance with Conditions Precedent. The Guarantor shall provide to the Trustee such evidence of compliance with the conditions precedent, if any, provided for in this Guarantee Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) may be given in the form of an Officers' Certificate.

Section 2.06 Events of Default; Waiver. The Holders of a Majority in liquidation amount of the Preferred Securities may, by vote, on behalf of all of the Holders, waive any past Event of Default and its consequences. Upon such waiver, any such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Guarantee

Agreement, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Section 2.07 Event of Default; Notice.

(a) The Trustee shall, within 90 days after the occurrence of an Event of Default, transmit by mail, first class postage prepaid, to the Holders, notices of all Events of Default actually known to a Responsible Officer of the Trustee, unless such defaults have been cured before the giving of such notice, provided that the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

(b) The Trustee shall not be deemed to have knowledge of any Event of Default unless the Trustee shall have received written notice thereof from the Guarantor or a Holder, or a Responsible Officer charged with the administration of the Declaration of Trust shall have obtained actual knowledge, of such Event of Default.

Section 2.08 Conflicting Interests. The Declaration of Trust shall be deemed to be specifically described in this Guarantee Agreement for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

ARTICLE III  
POWERS, DUTIES AND RIGHTS OF TRUSTEE

Section 3.01 Powers and Duties of the Trustee.

(a) This Guarantee Agreement shall be held by the Trustee for the benefit of the Holders, and the Trustee shall not transfer this Guarantee Agreement to any Person except the Trustee may assign rights hereunder to a Holder exercising his or her rights pursuant to Section 5.04(b) or to a Successor Trustee upon acceptance by such Successor Trustee of its appointment to act as Successor Trustee. The right, title and interest of the Trustee shall automatically vest in any Successor Trustee, and such vesting and cessation of title shall be effective whether or not conveyancing documents have been executed and delivered pursuant to the appointment of such Successor Trustee.

(b) If an Event of Default actually known to a Responsible Officer of the Trustee has occurred and is continuing, the Trustee shall enforce this Guarantee Agreement for the benefit of the Holders.

(c) The Trustee, before the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Guarantee Agreement, and no implied covenants shall be read into this Guarantee Agreement against the Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.06) and is actually known to a Responsible Officer of the Trustee, the Trustee shall exercise such of the rights and powers vested in it by this Guarantee Agreement, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(d) No provision of this Guarantee Agreement shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of any Event of Default and after the curing or waiving of all such Events of Default that may have occurred:

(A) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Guarantee Agreement, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Guarantee Agreement, and no implied covenants or obligations shall be read into this Guarantee Agreement against the Trustee; and

(B) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Guarantee Agreement; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not on their face they conform to the requirements of this Guarantee Agreement;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts upon which such judgment was made;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a Majority in liquidation amount of the Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Guarantee Agreement; and

(iv) no provision of this Guarantee Agreement shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Trustee shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Guarantee Agreement or adequate indemnity against such risk or liability is not reasonably assured to it.

#### Section 3.02 Certain Rights of Trustee.

(a) Subject to the provisions of Section 3.01:

(i) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(ii) any direction or act of the Guarantor contemplated by this Guarantee Agreement shall be sufficiently evidenced by an Officers' Certificate;

(iii) whenever, in the administration of this Guarantee Agreement, the Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting any action hereunder, the Trustee (unless other evidence is herein specifically prescribed) may, in the

absence of bad faith on its part, request and conclusively rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Guarantor;

(iv) the Trustee shall have no duty to see to any recording, filing or registration of any instrument (or any rerecording, refiling or registration thereof);

(v) the Trustee may consult with counsel of its choice, and the advice or opinion of such counsel with respect to legal matters shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion; such counsel may be counsel to the Guarantor or any of its Affiliates and may include any of its employees; the Trustee shall have the right at any time to seek instructions concerning the administration of this Guarantee Agreement from any court of competent jurisdiction;

(vi) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Guarantee Agreement at the request or direction of any Holder, unless such Holder shall have provided to the Trustee reasonable security and indemnity satisfactory to the Trustee against the costs, expenses (including attorneys' fees and expenses) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Trustee; provided that nothing contained in this Section 3.02(a)(vi) shall be taken to relieve the Trustee, upon the occurrence of an Event of Default, of its obligation to exercise the rights and powers vested in it by this Guarantee Agreement;

(vii) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(viii) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, nominees, custodians or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, nominee, custodian or attorney appointed with due care by it hereunder;

(ix) any action taken by the Trustee or its agents, nominees, custodians or attorneys hereunder shall bind the Holders, and the signature of the Trustee or its agents, nominees, custodians or attorneys alone shall be sufficient and effective to perform any such action; no third party shall be required to inquire as to the authority of the Trustee to so act or as to its compliance with any of the terms and provisions of this Guarantee Agreement, both of which shall be conclusively evidenced by the Trustee's or its agent's, nominee's, custodian's or attorney's taking such action;

(x) whenever in the administration of this Guarantee Agreement the Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Trustee (A) may request instructions from the Holders of a Majority in liquidation amount of the Preferred Securities, (B) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (C) shall be protected in relying on or acting in accordance with such instructions; and

(xi) the Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith, without negligence, and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Guarantee Agreement.

(b) No provision of this Guarantee Agreement shall be deemed to impose any duty or obligation on the Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it in any jurisdiction in which it shall be illegal, or in which the Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Trustee shall be construed to be a duty.

Section 3.03 Not Responsible for Recitals or Issuance of Preferred Securities. The recitals contained in this Guarantee Agreement shall be taken as the statements of the Guarantor, and the Trustee does not assume any responsibility for their correctness. The Trustee makes no representation as to the validity or sufficiency of this Guarantee Agreement.

#### ARTICLE IV TRUSTEE

##### Section 4.01 Trustee; Eligibility.

(a) There shall at all times be a Trustee which shall:

(i) not be an Affiliate of the Guarantor; and

(ii) be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or Person permitted by the Securities and Exchange Commission to act as an institutional trustee under the Trust Indenture Act, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million U.S. dollars (\$50,000,000), and subject to supervision or examination by Federal, State, Territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then, for the purposes of this Section 4.01(a)(ii), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Trustee shall cease to be eligible to so act under Section 4.01(a), the Trustee shall immediately resign in the manner and with the effect set out in Section 4.02(c).

(c) If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and Guarantor shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act, subject to the rights of the Trustee under the penultimate paragraph thereof.

##### Section 4.02 Appointment, Removal and Resignation of Trustee.

(a) Subject to Section 4.02(b), the Trustee may be appointed or removed without cause at any time by the Guarantor except during an Event of Default.

(b) The Trustee shall not be removed in accordance with Section 4.02(a) until a Successor Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Trustee and delivered to the Guarantor.

(c) The Trustee appointed to office shall hold office until a Successor Trustee shall have been appointed or until its removal or resignation. The Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing executed by the Trustee and delivered to the Guarantor, which resignation shall not take effect until a Successor Trustee has been appointed and has accepted such appointment by instrument in writing executed by such Successor Trustee and delivered to the Guarantor and the resigning Trustee.

(d) If no Successor Trustee shall have been appointed and accepted appointment as provided in this Section 4.02 within 60 days after delivery to the Guarantor of an instrument of resignation, the resigning Trustee may petition any court of competent jurisdiction for appointment of a Successor Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Successor Trustee.

(e) No Trustee shall be liable for the acts or omissions to act of any Successor Trustee.

(f) Upon termination of this Guarantee Agreement or removal or resignation of the Trustee pursuant to this Section 4.02, the Guarantor shall pay to the Trustee all amounts due to the Trustee that have accrued to the date of such termination, removal or resignation and all other amounts then due to the Trustee hereunder.

#### ARTICLE V GUARANTEE

Section 5.01 Guarantee. The Guarantor irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (without duplication of amounts theretofore paid by or on behalf of the Trust), as and when due, regardless of any defense, right of set-off or counterclaim which the Trust may have or assert against any Person. The Guarantor's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Guarantor to the Holders or by causing the Trust to pay such amounts to the Holders.

Section 5.02 Waiver of Notice and Demand. The Guarantor hereby waives notice of acceptance of this Guarantee Agreement and of any liability to which it applies or may apply, presentment, demand for payment, any right to require a proceeding first against the Trust or any other Person before proceeding against the Guarantor, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

Section 5.03 Obligations Not Affected. The obligations, covenants, agreements and duties of the Guarantor under this Guarantee Agreement shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

(a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Trust of any express or implied agreement, covenant, term or condition relating to the Preferred Securities to be performed or observed by the Trust;

(b) the extension of time for the payment by the Trust of all or any portion of the Distributions, Redemption Price, Liquidation Distribution or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising

out of, or in connection with, the Preferred Securities (other than an extension of time for payment of Distributions, Redemption Price, Liquidation Distribution or other sum payable that results from the extension of any interest payment period on the Debentures permitted by the Indenture);

(c) any failure, omission, delay or lack of diligence on the part of the Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Trust granting indulgence or extension of any kind;

(d) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Trust or any of the assets of the Trust;

(e) any invalidity of, or defect or deficiency in, the Preferred Securities;

(f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred; or

(g) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Section 5.03 that the obligations of the Guarantor hereunder shall be absolute and unconditional under any and all circumstances.

There shall be no obligation of the Holders to give notice to, or obtain consent of, the Guarantor with respect to the happening of any of the foregoing.

Section 5.04 Rights of Holders. The Guarantor expressly acknowledges:

(a) The Guarantee Agreement will be deposited with the Trustee to be held for the benefit of the Holders. The Trustee has the right to enforce this Guarantee Agreement on behalf of the Holders. The Holders of a Majority in liquidation amount of the Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee in respect of this Guarantee Agreement or exercising any trust or power conferred upon the Trustee under this Guarantee Agreement; provided, however, that, subject to the duties and responsibilities of the Indenture Trustee pursuant to the Indenture, the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed would be unjustly prejudicial to the Holders not taking part in such direction or if the Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if the Trustee in good faith by its board of directors or trustees, executive committee, or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceedings so directed would involve the Trustee in personal liability.

(b) If the Trustee fails to enforce this Guarantee Agreement, any Holder may institute a legal proceeding directly against the Guarantor to enforce the Trustee's rights under this Guarantee Agreement, without first instituting a legal proceeding against the Trust, the Trustee or any other Person. The Guarantor waives any right or remedy to require that any action be brought first against the Trust or any other Person before proceeding directly against the Guarantor; it being understood and intended that no one or more of such Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Guarantee Agreement to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Guarantee Agreement, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

Section 5.05 Guarantee of Payment. This Guarantee Agreement creates a guarantee of payment and not of collection.

Section 5.06 Subrogation. The Guarantor shall be subrogated to all (if any) rights of the Holders against the Trust in respect of any amounts paid to the Holders by the Guarantor under this Guarantee Agreement; provided, however, that the Guarantor shall not (except to the extent required by mandatory provisions of law) be entitled to enforce or exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Guarantee Agreement, if, at the time of any such payment, any amounts of Guarantee Payments are due and unpaid under this Guarantee Agreement. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to hold such amount in trust for the Holders and to pay over such amount to the Holders.

Section 5.07 Independent Obligations. The Guarantor acknowledges that its obligations hereunder are independent of the obligations of the Trust with respect to the Preferred Securities and that the Guarantor shall be liable as principal and as debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee Agreement notwithstanding the occurrence of any event referred to in subsections (a) through (g), inclusive, of Section 5.03 hereof.

#### ARTICLE VI LIMITATION OF TRANSACTIONS; SUBORDINATION

Section 6.01 Limitation of Transactions. So long as any Preferred Securities remain outstanding, if the Guarantor shall be in default with respect to its payment of any obligations under this Guarantee Agreement, then the Guarantor shall not (i) declare or pay any dividend on, make any distributions with respect to, or redeem, purchase or make a liquidation payment with respect to, any of the Guarantor's capital stock, (ii) make any payment of principal, interest or premium, if any, on or repay or repurchase or redeem any debt securities (including guarantees) of the Guarantor that rank pari passu with or junior in right of payment to the Debentures or (iii) make any guarantee payments with respect to the foregoing (except with respect to this Guarantee Agreement).

Section 6.02 Subordination. The obligations of the Guarantor under this Guarantee Agreement will constitute unsecured obligations of the Guarantor and will rank (i) subordinate and junior in right of payment to the Senior Indebtedness (as defined in the Indenture) to the same extent and in the same manner as the Debentures are subordinated to Senior Indebtedness pursuant to the Section 2.01 Certificate, it being understood that the terms of Sections (o) through (v) of the Section 2.01 Certificate shall apply to the obligations of the Guarantor under this Guarantee Agreement as if such Sections (o) through (v) of the Section 2.01 Certificate were set forth herein in full and such obligations were substituted for the term "Debentures" appearing in such Article VI, (ii) subordinate and junior in right of payment to the Debentures and any Other Indebtedness, (iii) pari passu with any Other Guarantees and any guarantee in respect of any preferred stock of any affiliate of the Guarantor and (iv) senior to all preferred and common stock of the Guarantor.

#### ARTICLE VII TERMINATION

Section 7.01 Termination. This Guarantee Agreement shall terminate and be of no further force and effect upon: (i) full payment of the Redemption Price of all Preferred Securities, (ii) the distribution of Debentures to the Holders in exchange for all of the Preferred Securities, or (iii) full payment of the amounts payable in accordance with the Declaration of Trust upon liquidation of the Trust. Notwithstanding the foregoing, this Guarantee Agreement will continue to be effective or will be



reinstated, as the case may be, if at any time any Holder must restore payment of any sums paid with respect to Preferred Securities or under this Guarantee Agreement.

ARTICLE VIII  
INDEMNIFICATION

Section 8.01 Exculpation.

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Guarantor or any Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith in accordance with this Guarantee Agreement and in a manner that such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Guarantee Agreement or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim to the extent incurred by reason of such Indemnified Person's negligence or willful misconduct with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Guarantor and upon such information, opinions, reports or statements presented to the Guarantor by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and who, if selected by such Indemnified Person, has been selected with reasonable care, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which Distributions to Holders might properly be paid.

Section 8.02 Indemnification. The Guarantor agrees to indemnify each Indemnified Person for, and to hold each Indemnified Person harmless against, any and all loss, liability, damage, claim or expense to the extent incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses (including reasonable legal fees and expenses) of defending itself against, or investigating, any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The obligation to indemnify and hold harmless as set forth in this Section 8.02 shall survive the termination of this Guarantee Agreement and the resignation or removal of the Trustee.

Section 8.03 Compensation and Fees.

The Guarantor agrees:

(a) to pay to the Trustee from time to time reasonable compensation for all services rendered by the Trustee hereunder in such amounts as the Guarantor and the Trustee shall agree from time to time (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); and

(b) except as otherwise expressly provided herein, to reimburse the Trustee upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Guarantee Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance determined to be attributable to its negligence or bad faith.

The provisions of this Section 8.03 shall survive the resignation or removal of the Trustee or the termination of this Guarantee Agreement.

To secure the Guarantor's payment obligations in this Section 8.03 and in Section 8.02, the Guarantor and the Holders agree that the Trustee shall have a lien prior to the Preferred Securities on all money or property held or collected by the Trustee. Such lien shall survive the termination of this Guarantee Agreement.

ARTICLE IX  
MISCELLANEOUS

Section 9.01 Successors and Assigns. All guarantees and agreements contained in this Guarantee Agreement shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders of the Preferred Securities then outstanding.

Section 9.02 Amendments. Except with respect to any changes which do not materially and adversely affect the rights of Holders (in which case no consent of Holders will be required), this Guarantee Agreement may only be amended with the prior approval of the Holders of a Majority in liquidation amount of the Preferred Securities. The provisions of Article 6 of the Declaration of Trust concerning meetings of and voting by Holders shall apply to the giving of such approval. No amendment of this Guarantee Agreement that affects the rights, duties or immunities of the Trustee shall be binding on the Trustee without its prior written consent thereto.

Section 9.03 Notices. Any notice, request or other communication required or permitted to be given hereunder shall be in writing, duly signed by the party giving such notice, and delivered, telecopied or mailed by first class mail as follows:

(a) if given to the Trustee, to the address set forth below or such other address as the Trustee may give notice of to the Guarantor and the Holders:

Wachovia Trust Company, National Association  
One Rodney Square  
920 King Street, Suite 102  
Wilmington, Delaware 19801  
Attention: Rita Marie Ritrovato, Trust Officer  
Telecopy: (302) 888-7544

(b) if given to the Guarantor, to the address set forth below or such other address as the Guarantor may give notice of to the Trustee and the Holders:

PECO Energy Company  
2301 Market Street  
Philadelphia, Pennsylvania 19101  
Attention: Treasurer  
Telecopy: (215) 841-4474

(c) if given to the Trust, in care of the Trustee, or to the Trustee at the Trust's (and the Trustee's) address set forth below (above) or such other address as the Trustee on behalf of the Trust may give notice to the Holders:

PECO Energy Capital Trust IV  
c/o PECO Energy Company  
2301 Market Street  
Philadelphia, Pennsylvania 19101  
Attention: Treasurer  
Telecopy: (215) 841-4474

with a copy, in the case of a notice to the Trust (other than a notice from the Guarantor), to the Guarantor; and

(d) if given to any Holder, at the address set forth on the books and records of the Trust.

All notices hereunder shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

Section 9.04 Benefit. This Guarantee Agreement is solely for the benefit of the Holders and, subject to Section 3.01(a), is not separately transferable from the Preferred Securities.

Section 9.05 Interpretation. In this Guarantee Agreement, unless the context otherwise requires:

(a) capitalized terms used in this Guarantee Agreement but not defined in the preamble hereto have the respective meanings assigned to them in Section 1.01;

(b) a term defined anywhere in this Guarantee Agreement has the same meaning throughout; all references to "the Guarantee Agreement" or "this Guarantee Agreement" are to this Guarantee Agreement as modified, supplemented or amended from time to time;

(c) all references in this Guarantee Agreement to Articles and Sections are to Articles and Sections of this Guarantee Agreement unless otherwise specified;

(d) a term defined in the Trust Indenture Act has the same meaning when used in this Guarantee Agreement unless otherwise defined in this Guarantee Agreement or unless the context otherwise requires;

(e) a reference to the singular includes the plural and vice versa;  
and

(f) the masculine, feminine or neuter genders used herein shall include the masculine, feminine and neuter genders.

Section 9.06 Governing Law. THIS GUARANTEE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE COMMONWEALTH OF PENNSYLVANIA. THE GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA AND ANY COURT IN THE COMMONWEALTH OF PENNSYLVANIA LOCATED IN THE CITY AND COUNTY OF PHILADELPHIA IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND

RELATED TO OR IN CONNECTION WITH THIS GUARANTEE AGREEMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE GUARANTOR HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURTS, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS GUARANTEE AGREEMENT OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURTS. THE GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS GUARANTEE AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF PENNSYLVANIA.

Section 9.07 Counterparts. This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

THIS PREFERRED SECURITIES GUARANTEE AGREEMENT is executed as of the day and year first above written.

PECO ENERGY COMPANY

By: /s/ J. Barry Mitchell  
-----  
J. Barry Mitchell  
Vice President and Treasurer

WACHOVIA TRUST COMPANY, NATIONAL  
ASSOCIATION, as Trustee

By: /s/ Rita Marie Ritrovato  
-----  
Name: Rita M. Ritrovato  
Title: Trust Officer

PECO ENERGY CAPITAL TRUST IV

AMENDED AND RESTATED DECLARATION OF TRUST

among

PECO ENERGY COMPANY, as Sponsor,

WACHOVIA TRUST COMPANY, NATIONAL ASSOCIATION,  
as Delaware Trustee and Property Trustee,

and

J. Barry Mitchell, George R. Shicora and Charles S. Walls

as Administrative Trustees

Dated as of June 24, 2003

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| 314(a)   | 8.15   |
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| 315(c)   | 8.01(a)  |
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| 316(a)   | Inapplicable   |
| 316(a)(1)(A)   | Inapplicable   |
| 316(a)(1)(B)   | Inapplicable   |
| 316(a)(2)  | Inapplicable   |
| 316(b)   | Inapplicable   |
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| 317(a)(1)  | Inapplicable   |
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\* This Cross-Reference Table does not constitute part of the Amended and Restated Declaration of Trust and shall not affect the interpretation of any of its

AMENDED AND RESTATED DECLARATION OF TRUST

THIS AMENDED AND RESTATED DECLARATION OF TRUST is made as of June 24, 2003, by and among (i) PECO Energy Company, a Pennsylvania corporation (the "Sponsor" or the "Company"), (ii) Wachovia Trust Company, National Association, a national banking association, as Delaware trustee and property trustee (the "Delaware Trustee" and the "Property Trustee," respectively, and, in its separate corporate capacity and not in its capacity as Delaware Trustee or Property Trustee, the "Bank"), (iii) J. Barry Mitchell, an individual, George R. Shicora, an individual, and Charles S. Walls, an individual, as administrative trustees (each an "Administrative Trustee" and together the "Administrative Trustees") (the Property Trustee, the Delaware Trustee and the Administrative Trustees referred to collectively as the "Trustees") and (iv) the several Holders, as hereinafter defined.

WITNESSETH:

WHEREAS, the Sponsor, the Delaware Trustee and J. Barry Mitchell, as Administrative Trustee, have heretofore duly declared and established a statutory trust pursuant to the Delaware Statutory Trust Act by entering into that certain Declaration of Trust, dated as of May 9, 2003 (the "Original Declaration of Trust"), and by the execution and filing by the Delaware Trustee and J. Barry Mitchell, as Administrative Trustee, with the Secretary of State of the State of Delaware of the Certificate of Trust, dated May 8, 2003 and filed on May 9, 2003 (the "Certificate of Trust"); and

WHEREAS, the parties hereto desire to amend and restate the Original Declaration of Trust in its entirety as set forth herein to provide for, among other things, (i) the addition of the Bank, as Property Trustee, and George R. Shicora and Charles S. Walls, as Administrative Trustees of the Trust, (ii) the acquisition by the Trust from the Sponsor of all of the right, title and interest in the Debentures, (iii) the issuance of the Common Securities by the Trust to the Sponsor, and (iv) the issuance and sale of the Preferred Securities by the Trust pursuant to the Underwriting Agreement.

NOW THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other parties and for the benefit of the Securityholders, hereby amends and restates the Original Declaration of Trust in its entirety and agrees as follows:

Article 1  
Defined Terms

Section 1.01 Definitions For all purposes of this Amended and Restated Declaration of Trust, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article 1 have the meanings assigned to them in this Article 1 and include the plural as well as the singular;

(b) all other terms used herein that are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Amended and Restated Declaration of Trust; and

(d) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Amended and Restated Declaration of Trust as a whole and not to any particular Article, Section or other subdivision.

"Act" has the meaning specified in Section 6.08.

"Additional Amounts" has the meaning specified in Section 4.01(b).

"Administrative Trustee" means each of the individuals identified as an "Administrative Trustee" in the preamble to this Amended and Restated Declaration of Trust solely in their capacities as Administrative Trustees of the Trust and not in their individual capacities, or such trustee's successor(s) in interest in such capacity, or any successor "Administrative Trustee" appointed as herein provided.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amended and Restated Declaration of Trust" means this Amended and Restated Declaration of Trust, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including all exhibits hereto, and including, for all purposes of this Amended and Restated Declaration of Trust and any modification, amendment or supplement hereto, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Amended and Restated Declaration of Trust and any such modification, amendment or supplement, respectively.

"Bank" has the meaning specified in the preamble to this Amended and Restated Declaration of Trust.

"Bankruptcy Event" means, with respect to any Person:

(a) the entry of a decree or order by a court having jurisdiction in the premises judging such Person a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjudication or composition of or in respect of such Person under federal bankruptcy law or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, trustee, sequestrator or other similar official of such Person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of such decree or order unstayed and in effect for a period of 60 consecutive days; or

(b) the institution by such Person of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under federal bankruptcy law or any other applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or similar official of such Person or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of action by such Person in furtherance of any such action.

"Bankruptcy Laws" has the meaning specified in Section 10.09.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Sponsor to have been duly adopted by the Sponsor's Board of Directors or a duly authorized committee thereof and to be in full force and effect on the date of such certification, and delivered to the Trustees.

"Book-Entry Preferred Securities Certificates" means certificates representing Preferred Securities issued in global, fully registered form to the Clearing Agency as described in Section 5.11.

"Business Day" means a day other than a Saturday or a Sunday or any other day on which banking institutions in Wilmington, Delaware or New York, New York are authorized or obligated by law, executive order or regulation to close, or a day on which the Corporate Trust Office is closed for business.

"Certificate Depository Agreement" means the Letter of Representations among the Trust, the Property Trustee and The Depository Trust Company, as the initial Clearing Agency, dated June 24, 2003, relating to the Preferred Securities Certificates, as the same may be amended and supplemented from time to time.

"Certificate of Trust" has the meaning specified in the recitals to this Amended and Restated Declaration of Trust.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act. The Depository Trust Company will be the initial Clearing Agency.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Securities Certificate" means a certificate evidencing ownership of a Common Security or Securities, substantially in the form attached as Exhibit A.

"Common Security" means an undivided beneficial interest in the assets of the Trust having a Liquidation Amount of \$1,000 and having the rights provided therefor in this Amended and Restated Declaration of Trust, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Corporate Trust Office" means the office of the Property Trustee or the Delaware Trustee, as the case may be, at which its corporate trust business shall be principally administered, which office as of the date hereof, in each such case, is located at One Rodney Square, 920 King Street, Suite 102, Wilmington, DE 19801, Attention: Corporate Trust Administration/Delaware, Facsimile No.: (302) 888-7544.

"Debentures" means the \$103,093,000 aggregate principal amount of the Sponsor's 5.75% Deferrable Interest Subordinated Debentures due June 15, 2033 issued pursuant to the Subordinated Indenture.

"Definitive Preferred Securities Certificates" means either or both (as the context requires) of (i) Preferred Securities Certificates issued in certificated, fully registered form as provided in Section 5.11(a) and (ii) Preferred Securities Certificates issued in certificated, fully registered form as provided in Section 5.13.

"Delaware Statutory Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. Code Section 3801 et seq., as it may be amended from time to time.

"Delaware Trustee" means the commercial bank or trust company or any other Person identified as the "Delaware Trustee" and has the meaning specified in the preamble to this Amended and Restated Declaration of Trust solely in its capacity as Delaware Trustee of the Trust and not in its individual capacity, or its successor in interest in such capacity, or any successor Delaware Trustee appointed as herein provided.

"Distribution Date" has the meaning specified in Section 4.01(a).

"Distributions" means amounts payable in respect of the Trust Securities as provided in Section 4.01.

"Early Termination Event" has the meaning specified in Section 9.02.

"Event of Default" means the occurrence of an Indenture Event of Default (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expense Agreement" means the Agreement as to Expenses and Liabilities between the Guarantor and the Trust, substantially in the form attached as Exhibit B, as amended from time to time.

"Extension Period" has the meaning specified in Section 4.01(b).

"Guarantee" means the Preferred Securities Guarantee Agreement executed and delivered by the Guarantor and Wachovia Trust Company, National Association, as Guarantee Trustee, contemporaneously with the execution and delivery of this Amended and Restated Declaration of Trust, for the benefit of the Holders of the Preferred Securities, as amended from time to time.

"Guarantor" means the Sponsor, its successors and assigns.

"Indenture Certificate" means the officer's certificate of the Sponsor dated as of June 24, 2003 and issued pursuant to Section 2.01 of the Subordinated Indenture.

"Indenture Event of Default" means an "Event of Default" as defined in the Subordinated Indenture.

"Indenture Redemption Date" means a date on which Debentures are redeemed by the Sponsor pursuant to the Subordinated Indenture, whether upon repayment, in whole or part, at maturity or upon early redemption (either at the Sponsor's option or pursuant to a Special Event).

"Indenture Trustee" means the trustee under the Subordinated Indenture.

"Issue Date" means the date of the delivery of the Trust Securities.

"Legal Action" has the meaning specified in Section 2.07(A)(iv).

"Lien" means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

"Like Amount" means (i) Trust Securities having a Liquidation Amount equal to the principal amount of Debentures to be contemporaneously redeemed in accordance with the Subordinated Indenture and the proceeds of which will be used to pay the applicable Redemption Price of such Trust Securities and (ii) Debentures having a principal amount equal to the Liquidation Amount of the Trust Securities of the Holder to whom such Debentures are distributed.

"Liquidation Amount" means the stated amount of \$1,000 per Trust Security.

"Liquidation Date" means the date on which Debentures are to be distributed to Holders of Trust Securities in connection with a dissolution and liquidation of the Trust pursuant to Section 9.04.

"Liquidation Distribution" has the meaning specified in Section 9.05.

"Maturity Redemption Price" means, with respect to a redemption of Trust Securities, an amount equal to the principal of and accrued and unpaid interest on the Debentures as of the maturity date thereof.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Sponsor, and delivered to the appropriate Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 8.16 shall be the principal executive, financial or accounting officer of the Sponsor. An Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Amended and Restated Declaration of Trust shall include:

(a) a statement that each officer signing the Officers' Certificate has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers' Certificate;

(c) a statement that each such officer has made such examination or investigation as is necessary, in such officer's opinion, to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Trust, the Trustees, the Guarantor or the Sponsor, but not an employee of the Trust or the Trustees, and who shall be reasonably acceptable to the Property Trustee. Any Opinion of Counsel pertaining to federal income tax matters may rely on published rulings of the Internal Revenue Service.

"Optional Redemption Price" means, with respect to a redemption of Trust Securities, an amount equal to the greater of:

(a) 100% of the principal amount of the Debentures being redeemed, or

(b) as determined by the Quotation Agent, the sum of the present values of scheduled payments of principal and interest thereon for the Remaining Life, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus .30%,

plus, in either case, accrued and unpaid interest on the Debentures being redeemed, including any Compounded Interest and Additional Amounts (as such terms are defined in the Indenture Certificate), to the redemption date.

"Original Declaration of Trust" has the meaning specified in the recitals to this Amended and Restated Declaration of Trust.

"Outstanding", when used with respect to Preferred Securities, means, as of the date of determination, all Preferred Securities theretofore authenticated and delivered under this Amended and Restated Declaration of Trust, except:

(a) Preferred Securities theretofore canceled by the Securities Registrar or delivered to the Securities Registrar for cancellation;

(b) Preferred Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Preferred Securities; provided that if such Preferred Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Amended and Restated Declaration of Trust; and

(c) Preferred Securities in exchange for or in lieu of which other Preferred Securities have been authenticated and delivered pursuant to this Amended and Restated Declaration of Trust;

provided, however, that in determining whether the Holders of the requisite Liquidation Amount of the Outstanding Preferred Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Preferred Securities owned by the Sponsor, the Holder of the Common Securities, the Guarantor, any Administrative Trustee or any Affiliate of the Sponsor, the Guarantor or any Administrative Trustee shall be disregarded and deemed not to be Outstanding, except that (i) in determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Preferred Securities which such Trustee knows to be so owned shall be so disregarded and (ii) the foregoing shall not apply at any time when all of the outstanding Preferred Securities are owned by the Sponsor, the Holder of the Common Securities, the Guarantor, one or more Administrative Trustees and/or any such Affiliate. Preferred Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Administrative Trustees the pledgee's right so to act with respect to such Preferred Securities and that the pledgee is not the Sponsor, the Guarantor or any Affiliate of the Sponsor or the Guarantor.

"Owner" means each Person who is the beneficial owner of a Book-Entry Preferred Securities Certificate as reflected in the records of the Clearing Agency or, if a Clearing Agency Participant is not the Owner, then as reflected in the records of a Person maintaining an account with such Clearing Agency (directly or indirectly, in accordance with the rules of such Clearing Agency).

"Paying Agent" means any paying agent or co-paying agent appointed pursuant to Section 5.09 and shall initially be the Property Trustee.

"Payment Account" means a segregated non-interest-bearing corporate trust account maintained by the Property Trustee for the benefit of the Securityholders in which all amounts paid in respect of the Debentures will be held and from which the Property Trustee shall make payments to the Securityholders in accordance with Sections 4.01 and 4.02.

"Person" means an individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Security" means an undivided beneficial interest in the assets of the Trust having a Liquidation Amount of \$1,000 and having rights provided therefor in this Amended and Restated Declaration of Trust, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Preferred Securities Certificate" means a certificate evidencing ownership of a Preferred Security or Securities, substantially in the form attached as Exhibit C.

"Property Trustee" means the commercial bank or trust company identified as the "Property Trustee" in the preamble to this Amended and Restated Declaration of Trust solely in its capacity as Property Trustee of the Trust and not in its individual capacity, or its successor in interest in such capacity, or any successor "Property Trustee" as herein provided.

"Quotation Agent" has the meaning specified in the Indenture Certificate.

"Redemption Date" means, with respect to any Trust Security to be redeemed, the date fixed for such redemption by or pursuant to this Amended and Restated Declaration of Trust; provided that each Indenture Redemption Date shall be a Redemption Date for a Like Amount of Trust Securities.

"Redemption Price" means:

(a) in the case of the repayment of the Trust Securities as a result of the repayment of the Debentures at maturity, the Maturity Redemption Price;

(b) in the case of the redemption of Trust Securities as a result of the optional redemption of the Debentures upon the occurrence of a Special Event, the Special Event Redemption Price; and

(c) in the case of the redemption of Trust Securities as a result of the optional redemption of the Debentures other than as a result of the occurrence of a Special Event, the Optional Redemption Price.

"Relevant Trustee" has the meaning specified in Section 8.10.

"Remaining Life" has the meaning specified in the Indenture Certificate.

"Responsible Officer" means, with respect to the Property Trustee, any managing director, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer or any other officer of the Corporate Trust Office of the Trustee customarily performing functions similar to those



performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Securities Act" means the Securities Act of 1933, as amended from time to time, or any successor legislation.

"Securities Register" and "Securities Registrar" are described in Section 5.04.

"Securityholder" or "Holder" means a Person in whose name a Trust Security or Securities is registered in the Securities Register; any such Person is a beneficial owner within the meaning of the Delaware Statutory Trust Act.

"Special Event" has the meaning specified in the Indenture Certificate.

"Special Event Redemption Price" means, with respect to a redemption of Trust Securities, an amount equal to the greater of:

(a) 100% of the principal amount of the Debentures, or

(b) as determined by the Quotation Agent, the sum of the present values of scheduled payments of principal and interest thereon for the Remaining Life, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus .50%,

plus, in either case, accrued and unpaid interest on the Debentures, including any Compounded Interest and Additional Amounts (as such terms are defined in the Indenture Certificate), to the redemption date.

"Sponsor" has the meaning specified in the preamble to this Amended and Restated Declaration of Trust, and includes its successors and assigns.

"Subordinated Indenture" means the Indenture, dated as of June 24, 2003, between the Sponsor and the Indenture Trustee, as heretofore supplemented and as supplemented by the Indenture Certificate.

"Successor Securities" has the meaning specified in Section 2.10.

"Treasury Rate" has the meaning specified in the Indenture Certificate.

"Trust" means the Delaware statutory trust continued hereby and identified on the cover page to this Amended and Restated Declaration of Trust.

"Trustees" means the Persons identified as "Trustees" in the preamble to this Amended and Restated Declaration of Trust solely in their capacities as Trustees of the Trust and not in their individual capacities, or their successor in interest in such capacity, or any successor trustee appointed as herein provided.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" shall mean, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trust Property" means (i) the Debentures, (ii) any cash on deposit in, or owing to, the Payment Account, and (iii) all proceeds and rights in respect of the foregoing and any other property and assets for the time being held or deemed to be held by the Property Trustee pursuant to this Amended and Restated Declaration of Trust.

"Trust Securities Certificate" means any one of the Common Securities Certificates or the Preferred Securities Certificates.

"Trust Security" means any one of the Common Securities or the Preferred Securities.

"Underwriting Agreement" means the Underwriting Agreement, dated June 17, 2003, among the Sponsor, the Trust and the Underwriters named therein.

## Article 2 Establishment of the Trust

### Section 2.01 Name

The Trust continued hereby shall be known as "PECO Energy Capital Trust IV," in which name the Trustees may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued. The Administrative Trustees may change the name of the Trust from time to time following written notice to the Holders and the other Trustees.

### Section 2.02 Offices of the Trustees; Principal Place of Business

The address of the Property Trustee and the Delaware Trustee is c/o Wachovia Trust Company, National Association, One Rodney Square, 920 King Street, Suite 102, Wilmington, DE 19801, Attention: Corporate Trust Administration/Delaware, or such other address as the Property Trustee or Delaware Trustee may designate by written notice to the Securityholders, the Sponsor and the Guarantor. The address of the Administrative Trustees is c/o PECO Energy Company, 2301 Market Street, Philadelphia, PA 19101, Attention: Secretary. The principal place of business of the Trust is c/o PECO Energy Company, 2301 Market Street, Philadelphia, PA 19101. The Sponsor may change the principal place of business of the Trust at any time by giving notice thereof to the Trustees.

### Section 2.03 Organizational Expenses

The Sponsor shall pay organizational expenses of the Trust as they arise or shall, upon request of the Trustees, promptly reimburse the Trustees for any such expenses paid by the Trustees. The Sponsor shall make no claim upon the Trust Property for the payment of such expenses.

### Section 2.04 Issuance of the Preferred Securities

Contemporaneously with the execution and delivery of this Amended and Restated Declaration of Trust, the Administrative Trustees, on behalf of the Trust, shall execute and deliver to the underwriters named in the Underwriting Agreement Preferred Securities Certificates, registered in the name of the nominee of the initial Clearing Agency, in an aggregate number of 100,000 Preferred Securities having an aggregate Liquidation Amount of \$100,000,000, against receipt of the aggregate purchase price of such Preferred Securities of \$99,394,000.

Section 2.05 Purchase of Debentures; Issuance of the Common Securities

Contemporaneously with the execution and delivery of this Amended and Restated Declaration of Trust, the Administrative Trustees, on behalf of the Trust, shall execute and deliver to the Sponsor Common Securities Certificates, registered in the name of the Sponsor, in an aggregate number of 3,093 Common Securities having an aggregate Liquidation Amount of \$3,093,000, against payment by the Sponsor of \$3,074,256. Contemporaneously therewith, the Administrative Trustees, on behalf of the Trust, shall purchase from the Sponsor Debentures, registered in the name of the Property Trustee, on behalf of the Trust and the Holders, and having an aggregate principal amount equal to \$103,093,000, and, in satisfaction of the purchase price for such Debentures, the Administrative Trustees, on behalf of the Trust, shall deliver to the Sponsor the sum of \$102,468,256.

Section 2.06 Amended and Restated Declaration of Trust

The exclusive purposes and functions of the Trust are (i) to issue and sell the Trust Securities and use the proceeds from such sale to acquire the Debentures, and (ii) to engage in those activities necessary, incidental, appropriate or convenient thereto. The Sponsor hereby appoints the Trustees, as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Trust and the Securityholders. The Trustees shall have all rights, powers and duties set forth herein and in accordance with applicable law with respect to accomplishing the purposes of the Trust. The Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities, of the Property Trustee or the Administrative Trustees set forth herein. The Delaware Trustee shall be one of the Trustees for the sole and limited purpose of fulfilling the requirements of the Delaware Statutory Trust Act.

Section 2.07 Authorization to Enter into Certain Transactions

The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Amended and Restated Declaration of Trust. Subject to the limitations set forth in paragraph C of this Section 2.07, Article 8, and in accordance with the following paragraphs A and B, the Trustees shall have the power and authority, and hereby are authorized, to enter into all transactions and agreements determined by the Trustees to be appropriate in exercising the authority, express (in the case of the Property Trustee) or implied, otherwise granted to the Trustees under this Amended and Restated Declaration of Trust, and to perform all acts in furtherance thereof, including without limitation, the following:

A. As among the Trustees, the Administrative Trustees, acting singly or jointly, shall have the exclusive power, duty and authority to act on behalf of the Trust with respect to the following matters:

(i) establish and maintain a Payment Account pursuant to Article III or otherwise in accordance with this Amended and Restated Declaration of Trust;

(ii) engage in such ministerial activities as shall be necessary or appropriate to effect the redemption of the Trust Securities to the extent the Debentures are redeemed or mature;

(iii) upon notice of distribution issued by the Administrative Trustees in accordance with the terms of this Amended and Restated Declaration of Trust, engage in such ministerial activities as shall be necessary or appropriate to effect the distribution pursuant to terms of this Amended and Restated Declaration of Trust of Debentures to Holders of Trust Securities;

(iv) subject to the terms hereof, take any Legal Action which arises out of or in connection with an Event of Default of which a Responsible Officer of the Property Trustee has actual knowledge or the Property Trustee's duties and obligations under this Amended and Restated Declaration of Trust or the Trust Indenture Act;

(v) take all actions and perform such duties as may be specifically required of the Property Trustee pursuant to the terms of this Amended and Restated Declaration of Trust;

(vi) to acquire the Debentures with the proceeds of the sale of the Trust Securities; provided, however, the Administrative Trustees shall cause legal title to all of the Debentures to be vested in, and the Debentures to be held of record in the name of, the Property Trustee for the benefit of the Holders of the Trust Securities;

(vii) to give the Sponsor and the Property Trustee prompt written notice of the occurrence of any Special Event (as defined in the Indenture Certificate) and to, at its option, take any ministerial actions in connection therewith; provided, that the Administrative Trustees shall consult with the Sponsor and the Property Trustee before taking any ministerial action in relation to a Special Event;

(viii) to establish a record date with respect to all actions to be taken hereunder that require a record date be established, including for the purposes of ss. 316(c) of the Trust Indenture Act and with respect to Distributions, voting rights, redemptions, and exchanges, and to issue relevant notices to Holders of the Trust Securities as to such actions and applicable record dates;

(ix) to bring or defend, pay, collect, compromise, arbitrate, resort to legal action, or otherwise adjust claims or demands of or against the Trust ("Legal Action"), unless pursuant to Section 2.07(B)(iv), the Property Trustee has the power to bring such Legal Action;

(x) to employ or otherwise engage employees and agents (who may be designated as officers with titles) and managers, contractors, advisors, and consultants and pay reasonable compensation for such services;

(xi) to cause the Trust to comply with the Trust's obligations under the Trust Indenture Act;

(xii) to give the certificate on behalf of the Company, as obligor (as defined in the Trust Indenture Act), to the Property Trustee required by ss. 314(a)(4) of the Trust Indenture Act, which certificate may be executed by any Administrative Trustee;

(xiii) to take all actions and perform such duties on behalf of the Trust as may be required of the Administrative Trustees pursuant to the terms of this Amended and Restated Declaration of Trust;

(xiv) to take all action that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory trust under the laws of the State of Delaware and of each other jurisdiction in which such existence is necessary to protect the limited liability of the Holders of the Trust Securities or to enable the Trust to effect the purposes for which the Trust has been created;

(xv) to take all action necessary to cause all applicable tax returns and tax information reports that are required to be filed with respect to the Trust to be duly prepared and filed by the Administrative Trustees, on behalf of the Trust;

(xvi) to issue and sell the Trust Securities pursuant to the terms of this Amended and Restated Declaration of Trust;

(xvii) to cause the Trust to enter into, and to execute, deliver and perform on behalf of the Trust, the Underwriting Agreement providing for the sale of the Preferred Securities, the Expense Agreement and the Certificate Depository Agreement and such other agreements as may be necessary or desirable in connection with the consummation of the transactions contemplated hereby and thereby;

(xviii) to assist in the registration of the Preferred Securities under the Securities Act and under state securities or blue sky laws, and the qualification of this Amended and Restated Declaration of Trust as a trust indenture under the Trust Indenture Act;

(xix) to assist in the listing of the Preferred Securities upon such securities exchanges or national trading markets, if any, as shall be determined by the Sponsor and, if required, the registration of the Preferred Securities under the Exchange Act, and the preparation, execution and filing of all periodic and other reports and other documents pursuant to the foregoing;

(xx) to send notices (other than notices of default) and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Amended and Restated Declaration of Trust;

(xxi) to appoint a Paying Agent (subject to Section 5.09), authenticating agent and Securities Registrar in accordance with this Amended and Restated Declaration of Trust;

(xxii) to assist in, to the extent provided in this Amended and Restated Declaration of Trust, the winding up of the affairs of and termination of the Trust and the preparation, execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware; and

(xxiii) to take any action incidental to the foregoing as the Administrative Trustees may from time to time determine is necessary, appropriate, convenient or advisable to protect and conserve the Trust Property for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

**B. The Property Trustee shall:**

(i) establish and maintain the Payment Account pursuant to Article III or otherwise in accordance with this Amended and Restated Declaration of Trust;

(ii) engage in such ministerial activities as shall be necessary or appropriate to effect the redemption of the Trust Securities to the extent the Debentures are redeemed or mature;

(iii) upon notice of distribution issued by the Administrative Trustees in accordance with the terms of this Amended and Restated Declaration of Trust, engage in such ministerial activities as shall be necessary or appropriate to effect the distribution pursuant to terms of this Amended and Restated Declaration of Trust of Debentures to Holders of Trust Securities;

(iv) subject to the terms hereof, take any Legal Action which arises out of or in connection with an Event of Default of which a Responsible Officer of the Property Trustee has actual knowledge or the Property Trustee's express duties and obligations under this Amended and Restated Declaration of Trust or the Trust Indenture Act;

(v) take all actions and perform such duties as may be specifically required of the Property Trustee pursuant to the terms of this Amended and Restated Declaration of Trust;

(vi) to the extent that it is designated as the Securities Registrar, to register transfers of the Trust Securities and otherwise take action with respect to the Trust Securities in accordance with the express provisions of this Amended and Restated Declaration of Trust; and

(vii) except as otherwise provided in this Section 2.07B, the Property Trustee shall have none of the powers, duties, authority or liabilities of the Administrative Trustees set forth in Section 2.07A.

C. So long as this Amended and Restated Declaration of Trust remains in effect, the Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trustees shall not (i) acquire any investments or engage in any activities not authorized by this Amended and Restated Declaration of Trust, (ii) sell, assign, transfer, exchange, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take or consent to any action that would cause the Trust to fail or cease to qualify as a grantor trust for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money, (v) take or consent to any action that would result in the placement of a Lien on any of the Trust Property, (vi) issue any securities other than the Trust Securities, or (vii) have any power to, or agree to any action by the Sponsor that would, vary the investment (within the meaning of Treasury Regulation Section 301.7701-4(c)) of the Trust or of the Securityholders. The Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

D. In connection with the issue and sale of the Preferred Securities, the Sponsor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Sponsor in furtherance of the following prior to the date of this Amended and Restated Declaration of Trust are hereby ratified and confirmed in all respects):

(i) if required, to prepare for filing by the Trust with the Commission a registration statement on Form S-3 under the Securities Act in relation to the Preferred Securities, including any amendments thereto;

(ii) to determine the states in which to take appropriate action to qualify or register for sale all or part of the Preferred Securities and to do any and all such acts, other than actions which must be taken by or on behalf of the Trust, and advise the Trustees of actions they must take on behalf of the Trust, and prepare for execution and filing any documents to be executed and filed by the Trust or on behalf of the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such states;

(iii) if deemed necessary or advisable by the Sponsor, to prepare for filing by the Trust an application to the New York Stock Exchange or any other national stock exchange or The Nasdaq National Market for listing upon notice of issuance of any Preferred Securities;

(iv) if required, to prepare for filing by the Trust with the Commission a registration statement on Form 8-A relating to the registration of the Preferred Securities under Section 12(b) of the Exchange Act, including any amendments thereto;

(v) to negotiate the terms of the Underwriting Agreement providing for the sale of the Preferred Securities; and

(vi) any other actions necessary, incidental, appropriate or convenient to carry out any of the foregoing activities.

E. Notwithstanding anything herein to the contrary, the Administrative Trustees are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that the Trust will not be deemed to be an "investment company" required to be registered under the Investment Company Act of 1940, as amended, or taxed as other than a grantor trust for United States federal income tax purposes and so that the Debentures will be treated as indebtedness of the Sponsor for United States federal income tax purposes. In this connection, the Sponsor and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law, the Certificate of Trust or this Amended and Restated Declaration of Trust, that each of the Sponsor and the Administrative Trustees determines in its discretion to be necessary or desirable for such purposes, as long as such action does not materially and adversely affect the interests of the Holders of the Preferred Securities.

F. To the extent that Trust Property is deemed to be subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Holders of Preferred Securities that are "employee benefit plans" within the meaning of section 3(3) of ERISA shall be deemed to have directed the Trustees to invest in the Debentures.

#### Section 2.08 Assets of Trust

The assets of the Trust shall consist of the Trust Property.

#### Section 2.09 Title to Trust Property

Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the Property Trustee for the benefit of the Securityholders and the Trust in accordance with this Amended and Restated Declaration of Trust. The right, title and interest of the Property Trustee to the Debentures shall vest automatically in each Person who may thereafter be appointed as Property Trustee in accordance with the terms hereof. Such vesting and cessation of title shall be effective whether or not conveyancing documents have been executed and delivered.

#### Section 2.10 Mergers and Consolidations of the Trust

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other body, except as described below or otherwise provided in this Amended and Restated Declaration of Trust. The Trust may at the request of the Sponsor, with the consent of the Administrative Trustees and without the consent of the Holders of the Trust Securities, the Delaware Trustee or the Property Trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any state; provided, that (i) such successor entity either (x) expressly assumes all of the obligations of the Trust with respect to the Trust Securities or (y) substitutes for the Preferred Securities other securities having substantially the same terms as the Preferred Securities (herein referred to as the "Successor Securities") so long as the Successor Securities rank the same as the Preferred Securities rank in priority with respect to

Distributions and payments upon liquidation, redemption and otherwise, (ii) the Sponsor expressly appoints a trustee of such successor entity possessing substantially the same powers and duties as the Property Trustee as the holder of legal title to the Debentures, (iii) the Preferred Securities or any Successor Securities are listed, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization, if any, on which the Preferred Securities are then listed, (iv) such merger, consolidation, amalgamation or replacement does not cause the Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the Holders of the Trust Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation, or replacement, the Sponsor and the Property Trustee have received an Opinion of Counsel to the effect that (A) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the Holders of the Trust Securities (including any Successor Securities) in any material respect, (B) following such merger, consolidation, amalgamation or replacement, neither the Trust nor such successor entity will be required to register as an investment company under the Investment Company Act of 1940 and (C) following such merger, consolidation, amalgamation or replacement, the Trust (or the successor entity) will continue to be classified as a grantor trust for United States federal income tax purposes, and (viii) the Sponsor guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of Holders of 100% in Liquidation Amount of the Trust Securities, consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity to be classified as other than a grantor trust for United States federal income tax purposes.

Article 3  
Payment Account

Section 3.01 Payment Account.

(a) On or prior to the Issue Date, the Property Trustee shall establish the Payment Account. The Property Trustee (and if deemed necessary by the Property Trustee, an agent of the Property Trustee) shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Amended and Restated Declaration of Trust. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee in the Payment Account for the exclusive benefit of the Securityholders and for distribution as herein provided, including (and subject to) any priority of payments provided for herein.

(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal or interest on, and any other payments or proceeds with respect to, the Debentures. Amounts held in the Payment Account shall not be invested by the Property Trustee pending distribution thereof.

Article 4  
Distributions; Redemption

Section 4.01 Distributions.

(a) Distributions on the Trust Securities shall be cumulative and accrue from the Issue Date and, except in the event that the Sponsor exercises its right to extend the interest payment



period for the Debentures pursuant to Section (k) of the Indenture Certificate, shall be payable semiannually in arrears on June 15 and December 15 of each year, commencing on December 15, 2003. If any date on which Distributions are otherwise payable on the Trust Securities is not a Business Day, then the payment of such Distribution shall be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, payment of such Distribution shall be made on the immediately preceding Business Day, in each case, with the same force and effect as if made on such date (each such date, a "Distribution Date").

(b) Distributions payable on the Trust Securities shall be fixed at a rate of 5.75% per annum of the Liquidation Amount of the Trust Securities, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Distributions in arrears for more than one semiannual period will bear interest thereon compounded semiannually at 5.75% per annum (to the extent permitted by applicable law). The amount of Distributions payable for any full semiannual period shall be computed on the basis of twelve 30-day months and a 360-day year, and for any period shorter than a full month for which Distributions are computed, Distributions will be computed on the basis of the actual number of days elapsed in any such partial month. If the interest payment period for the Debentures is extended by the Sponsor pursuant to Section (k) of the Indenture Certificate (an "Extension Period"), no interest shall be due and payable on the Debentures. As a consequence of an Extension Period, Distributions will also be deferred, provided that semiannual Distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at 5.75% per annum compounded semiannually ("Additional Amounts") during any such Extension Period. Such deferred Distributions, together with Additional Amounts, will be distributed to the Holders of the Trust Securities as received at the end of any Extension Period; provided, however, that the Trust may distribute such amounts earlier if the Sponsor prepays interest accrued on the Debentures prior to the end of any Extension Period as permitted by the Subordinated Indenture.

(c) Distributions on the Trust Securities shall be made and shall be deemed payable on each Distribution Date only to the extent that the Trust has legally and immediately available funds in the Payment Account for the payment of such Distributions.

(d) Distributions, including Additional Amounts, if any, on the Trust Securities on each Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date. While the Preferred Securities are in book-entry only form, the relevant record dates shall be one Business Day prior to the relevant payment dates which payment dates correspond to the interest payment dates on the Debentures. If the Preferred Securities shall not continue to remain in book-entry only form, the relevant record dates for the Preferred Securities shall conform to the rules of any securities exchange on which the Preferred Securities are listed and, if none, shall be selected by the Administrative Trustees, which dates shall be at least one Business Day but not more than 60 Business Days before the relevant payment dates, which payment dates correspond to the interest payment dates on the Debentures. The relevant record dates for the Common Securities shall be the same record date as for the Preferred Securities. Distributions payable on the Trust Securities that are not punctually paid on any Distribution Date as a result of the Sponsor having failed to make a payment on the Debentures will cease to be payable to the Person in whose name such Trust Securities are registered on the relevant record date, and such defaulted Distribution will instead be payable to the Person in whose name such Trust Securities are registered on the special record date or other specified date determined in accordance with the Subordinated Indenture.

Each Trust Security upon registration of transfer of or in exchange for or in lieu of any other Trust Security shall carry the rights of Distributions accrued (including Additional Amounts, if any) and unpaid, and to accrue (including Additional Amounts, if any), which were carried by such other Trust Security.

Section 4.02 Redemption.

(a) On each Indenture Redemption Date with respect to the Debentures (other than following the distribution of the Debentures to the holders of Trust Securities pursuant to Section 9.04), the Trust will be required to redeem a Like Amount of Trust Securities at the applicable Redemption Price.

(b) Notice of redemption shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date to each Holder of Trust Securities to be redeemed, at such Holder's address appearing in the Securities Register. All notices of redemption shall state:

(i) the Redemption Date;

(ii) the applicable Redemption Price;

(iii) the CUSIP number;

(iv) if less than all the Outstanding Trust Securities are to be redeemed, the total Liquidation Amount of the Trust Securities to be redeemed; and

(v) that on the Redemption Date the applicable Redemption Price will become due and payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accrue on and after such date.

(c) The Trust Securities redeemed on each Redemption Date shall be redeemed at the applicable Redemption Price with the proceeds from the contemporaneous redemption of Debentures. Redemptions of the Trust Securities shall be made and the applicable Redemption Price shall be deemed payable on each Redemption Date only to the extent that the Trust has funds legally and immediately available in the Payment Account for the payment of such Redemption Price.

(d) If the Property Trustee gives a notice of redemption in respect of any Preferred Securities, then, by 2:00 p.m. New York time, on the Redemption Date, subject to Section 4.02(c), the Property Trustee will, so long as the Preferred Securities are in book-entry only form, irrevocably deposit with the Clearing Agency for the Preferred Securities funds sufficient to pay the applicable Redemption Price. If the Preferred Securities are not in book-entry only form, the Property Trustee, subject to Section 4.02(c), shall irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent (if other than the Property Trustee) irrevocable instructions to pay such Redemption Price to the Holders thereof upon surrender of their Preferred Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the applicable Redemption Price, but without

interest, and such Securities will cease to be outstanding. In the event that any date on which any Redemption Price is payable is not a Business Day, then payment of the applicable Redemption Price payable on such date shall be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, payment of such Redemption Price shall be made on the immediately preceding Business Day, in each case, with the same force and effect as if made on such date. In the event that payment of the applicable Redemption Price in respect of Trust Securities is improperly withheld or refused and not paid either by the Trust or by the Guarantor pursuant to the Guarantee, Distributions on such Trust Securities will continue to accrue at the then applicable rate, from such Redemption Date originally established by the Trust for such Preferred Securities to the date such Redemption Price is actually paid, and the actual payment date will be the Redemption Date for purposes of calculating the applicable Redemption Price.

(e) If less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then, subject to Section 4.03, the aggregate Liquidation Amount of Trust Securities to be redeemed shall be allocated pro rata to the Holders of the Trust Securities, with such adjustments that each amount so allocated shall be divisible by \$1,000. The particular Preferred Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Preferred Securities not previously called for redemption, by such method as the Property Trustee shall deem fair and appropriate and which may provide for the selection for a redemption of portions (equal to \$1,000 or integral multiple thereof) of the Liquidation Amount of Preferred Securities of a denomination larger than \$1,000. The Property Trustee shall promptly notify the Securities Registrar (if other than the Property Trustee) in writing of the Preferred Securities selected for redemption and, in the case of any Preferred Securities selected for partial redemption, the Liquidation Amount thereof to be redeemed. For all purposes of this Amended and Restated Declaration of Trust, unless the context otherwise requires, all provisions relating to the redemption of Preferred Securities shall relate, in the case of any Preferred Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Amount of Preferred Securities which has been or is to be redeemed.

(f) Less than all the outstanding Trust Securities may not be redeemed unless all accrued and unpaid Distributions have been paid on all Trust Securities for all semiannual distribution periods terminating on or before the date of redemption.

(g) Subject to the foregoing provisions of this Section 4.02 and to applicable law (including, without limitation, United States federal securities laws), the Sponsor, the Guarantor or their Affiliates may, at any time and from time to time, purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

Section 4.03 Subordination of Common Securities.

(a) Payment of Distributions (including Additional Amounts, if applicable) on, and the applicable Redemption Price of, the Trust Securities, as the case may be, shall be made pro rata based on the Liquidation Amount of the Trust Securities; provided, however, that if on any Distribution Date or Redemption Date an Indenture Event of Default shall have occurred and be continuing, no payment of any Distribution (including Additional Amounts, if applicable) on, or the applicable Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions (including Additional Amounts, if applicable) on all Outstanding Preferred Securities for all distribution periods terminating on or prior thereto, or in the case of payment of the applicable Redemption Price the full amount of such Redemption Price on all Outstanding Preferred Securities, shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions (including Additional Amounts, if applicable) on, or the applicable Redemption Price of, Preferred Securities then due and payable.

(b) In the case of the occurrence of any Indenture Event of Default, the Holder of Common Securities will be deemed to have waived any such Event of Default under this Amended and Restated Declaration of Trust until the effect of all such Events of Default with respect to the Preferred Securities have been cured, waived or otherwise eliminated. Until any such Events of Default under this Amended and Restated Declaration of Trust with respect to the Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the Holders of the Preferred Securities and not the Holder of the Common Securities, and only the Holders of the Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

Section 4.04 Payment Procedures

Payments in respect of the Preferred Securities shall be made by check mailed to the address of the Person entitled thereto as such address shall appear on the Securities Register or, if the Preferred Securities are held by a Clearing Agency, such Distributions shall be made to the Clearing Agency, which shall credit the relevant Persons' accounts at such Clearing Agency on the applicable Distribution Dates. Payments in respect of the Common Securities shall be made in such manner as shall be mutually agreed between the Property Trustee and the Holder of the Common Securities.

Section 4.05 Tax Returns and Reports

The Administrative Trustee(s) shall prepare (or cause to be prepared), at the Sponsor's expense, and file all United States federal, state and local tax and information returns and reports required to be filed by or in respect of the Trust. The Administrative Trustee(s) shall provide or cause to be provided on a timely basis to each Holder any Internal Revenue Service form required to be so provided in respect of the Trust Securities.

Article 5  
Trust Securities Certificates

Section 5.01 Initial Ownership

Upon the creation of the Trust by the contribution by the Sponsor pursuant to Section 2.03 and until the issuance of the Trust Securities, and at any time during which no Trust Securities are outstanding, the

Sponsor shall be the sole beneficial owner of the Trust.

#### Section 5.02 The Trust Securities Certificates

Each of the Trust Securities Certificates shall be issued in minimum denominations of \$1,000 and integral multiples in excess thereof. The Trust Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signature of at least one Administrative Trustee. Trust Securities Certificates bearing the manual or facsimile signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust, shall be validly issued and entitled to the benefits of this Amended and Restated Declaration of Trust, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the authentication and delivery of such Trust Securities Certificates or did not hold such offices at the date of authentication and delivery of such Trust Securities Certificates. A transferee of a Trust Securities Certificate shall become a Securityholder, and shall be entitled to the rights and subject to the obligations of a Securityholder hereunder, upon due registration of such Trust Securities Certificate in such transferee's name pursuant to Section 5.04.

#### Section 5.03 Authentication of Trust Securities Certificates

On the Issue Date, the Administrative Trustees shall cause Trust Securities Certificates, in an aggregate Liquidation Amount as provided in Sections 2.04 and 2.05, to be executed on behalf of the Trust, authenticated and delivered to or upon the written order of the Sponsor signed by its Chairman of the Board, its President or any Vice President, without further corporate action by the Sponsor, in authorized denominations. No Trust Securities Certificate shall entitle its holder to any benefit under this Amended and Restated Declaration of Trust, or shall be valid for any purpose, unless there shall appear on such Trust Securities Certificate a certificate of authentication substantially in the form set forth in Exhibit A or Exhibit C, as applicable, executed by the Property Trustee by manual signature; such authentication shall constitute conclusive evidence that such Trust Securities Certificate shall have been duly authenticated and delivered hereunder. All Trust Securities Certificates shall be dated the date of their authentication. Upon the written order of the Trust signed by the Administrative Trustees, the Property Trustee shall authenticate and make available for delivery the Trust Security Certificates.

#### Section 5.04 Registration of Transfer and Exchange of Preferred Securities Certificates

The Securities Registrar shall keep or cause to be kept, at the office or agency maintained pursuant to Section 5.08, a Securities Register in which, subject to such reasonable regulations as it may prescribe, the Securities Registrar shall provide for the registration of Preferred Securities Certificates and the Common Securities Certificates (subject to Section 5.10 in the case of the Common Securities Certificates) and registration of transfers and exchanges of Preferred Securities Certificates as herein provided. The Property Trustee shall be the initial Securities Registrar.

Upon surrender for registration of transfer of any Preferred Securities Certificate at the office or agency maintained pursuant to Section 5.08, one or more of the Administrative Trustees shall execute and cause the Property Trustee to authenticate and deliver in the name of the designated transferee or transferees one or more new Preferred Securities Certificates in authorized denominations of a like aggregate Liquidation Amount dated the date of authentication by the Property Trustee. The Securities Registrar shall not be required to register the transfer of any Preferred Securities that have been called for redemption. At the option of a Holder, Preferred Securities Certificates may be exchanged for other Preferred Securities Certificates in authorized denominations of the same class and of a like aggregate Liquidation Amount upon surrender of the Preferred Securities Certificates to be exchanged at the office or agency maintained pursuant to Section 5.08.

Every Preferred Securities Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to the Administrative Trustees and the Securities Registrar duly executed by the Holder or his attorney duly authorized in writing. Each Preferred Securities Certificate surrendered for registration of transfer or exchange shall be canceled and subsequently disposed of by the Securities Registrar in accordance with its customary practice.

No service charge shall be made for any registration of transfer or exchange of Preferred Securities Certificates, but the Securities Registrar or the Administrative Trustees may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Preferred Securities Certificates.

#### Section 5.05 Mutilated, Destroyed, Lost or Stolen Trust Securities Certificates

If (i) any mutilated Trust Securities Certificate shall be surrendered to the Securities Registrar, or if the Securities Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate and (ii) there shall be delivered to the Securities Registrar, the Property Trustee and the Administrative Trustees such security or indemnity as may be required by them to save each of them harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a protected purchaser, the Administrative Trustees or any one of them on behalf of the Trust shall execute and cause the Property Trustee to authenticate and make available for delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like class, tenor and denomination. In connection with the issuance of any new Trust Securities Certificate under this Section 5.05, the Administrative Trustees or the Securities Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Securities Certificate issued pursuant to this Section 5.05 shall constitute conclusive evidence of an ownership interest in the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

#### Section 5.06 Persons Deemed Securityholders

Prior to due presentation of a Trust Securities Certificate for registration of transfer, the Trustees or the Securities Registrar shall treat the Person in whose name any Trust Securities Certificate shall be registered in the Securities Register as the owner of such Trust Securities Certificate for the purpose of receiving Distributions (subject to Section 4.01(d)) and for all other purposes whatsoever, and neither the Trustees nor the Securities Registrar shall be bound by any notice to the contrary.

#### Section 5.07 Access to List of Securityholders' Names and Addresses

The Administrative Trustees shall furnish or cause to be furnished to (i) the Sponsor and the Property Trustee semi-annually, not later than June 1 and December 1 in each year, and (ii) the Sponsor or the Property Trustee, as the case may be, within 30 days after receipt by any Administrative Trustee of a request therefor from the Sponsor or the Property Trustee, as the case may be, in writing, a list, in such form as the Sponsor or the Property Trustee, as the case may be, may reasonably require, of the names and addresses of the Securityholders as of a date not more than 15 days prior to the time such list is furnished; provided, that the Administrative Trustees shall not be obligated to provide such list at any time such list does not differ from the most recent list given to the Sponsor and the Property Trustee by the Administrative Trustees or at any time the Property Trustee is the Securities Registrar. If three or more Securityholders or one or more Holders of Trust Securities Certificates evidencing not less than 25% of the outstanding Liquidation Amount apply in writing to the Administrative Trustees, and such application states that the applicants desire to communicate with other Securityholders with respect to their rights under this Amended and Restated Declaration of Trust or under the Trust Securities Certificates and such application is

accompanied by a copy of the communication that such applicants propose to transmit, then the Administrative Trustees shall, within five Business Days after the receipt of such application, afford such applicants access during normal business hours to the current list of Securityholders. Each Holder, by receiving and holding a Trust Securities Certificate, shall be deemed to have agreed not to hold the Sponsor, the Property Trustee or the Administrative Trustees accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

#### Section 5.08 Maintenance of Office or Agency

The Administrative Trustees shall maintain in the Borough of Manhattan, New York, or Wilmington, Delaware, an office or offices or agency or agencies where Preferred Securities Certificates may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trustees in respect of the Trust Securities Certificates may be served. The Administrative Trustees initially designate the Corporate Trust Office of the Property Trustee, Wachovia Trust Company, National Association, as its office for such purposes. The Administrative Trustees shall give prompt written notice to the Sponsor and to the Securityholders of any change in the location of the Securities Register or any such office or agency.

#### Section 5.09 Appointment of Paying Agent

The Paying Agent shall make Distributions and other payments provided hereby to Securityholders from the Payment Account and shall report the amounts of such Distributions and payments to the Property Trustee and the Administrative Trustees. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making the Distributions and payments provided hereby. The Administrative Trustees may revoke such power and remove the Paying Agent if such Trustees determine in their sole discretion that the Paying Agent shall have failed to perform its obligations under this Agreement in any material respect. The Paying Agent shall initially be the Property Trustee, and it may choose any co-paying agent that is acceptable to the Administrative Trustees and the Sponsor. Any Person acting as Paying Agent shall be permitted to resign as Paying Agent upon 30 days written notice to the Administrative Trustees and the Sponsor. In the event that a Paying Agent shall resign or be removed, the Administrative Trustees shall appoint a successor that is acceptable to the Sponsor to act as Paying Agent (which shall be a bank or trust company). The Administrative Trustees shall cause such successor Paying Agent or any additional Paying Agent appointed by the Administrative Trustees to execute and deliver to the Trustees an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Trustees that as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to such Securityholders. The Paying Agent shall return all unclaimed funds to the Property Trustee and upon removal of a Paying Agent such Paying Agent shall also return all funds in its possession to the Property Trustee. The provisions of Sections 8.01, 8.03 and 8.06 shall apply to the Property Trustee also in its role as Paying Agent, for so long as the Property Trustee shall act as Paying Agent and, to the extent applicable, to any other paying agent appointed hereunder. Any reference in this Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

#### Section 5.10 Ownership of Common Securities by Sponsor

On the Issue Date, the Sponsor shall acquire, and thereafter retain, beneficial and record ownership of the Common Securities. To the fullest extent permitted by law, any attempted transfer of the Common Securities, except for transfers by operation of law or to an Affiliate of the Guarantor or the Sponsor or a permitted successor under the Subordinated Indenture, shall be void. The Administrative Trustees shall cause each Common Securities Certificate issued to the Sponsor to contain a legend stating "THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT AS PROVIDED IN THE AMENDED AND

RESTATED DECLARATION OF TRUST REFERRED TO HEREIN".

Section 5.11 Book-Entry Preferred Securities Certificates; Common Securities Certificate.

(a) The Preferred Securities Certificates, upon original issuance, will be issued in the form of a typewritten Preferred Securities Certificate or Certificates representing Book-Entry Preferred Securities Certificates, to be delivered to The Depository Trust Company, the initial Clearing Agency, by, or on behalf of, the Trust. Such Preferred Securities Certificate or Certificates shall initially be registered on the Securities Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no Owner will receive a definitive Preferred Securities Certificate representing such beneficial owner's interest in such Preferred Securities, except as provided in Section 5.13. Unless and until Definitive Preferred Securities Certificates have been issued to Owners pursuant to Section 5.13:

(i) the provisions of this Section 5.11(a) shall be in full force and effect;

(ii) the Securities Registrar and the Trustees shall be entitled to deal with the Clearing Agency for all purposes of this Amended and Restated Declaration of Trust relating to the Book-Entry Preferred Securities Certificates (including the payment of principal of and interest on the Book-Entry Preferred Securities and the giving of instructions or directions to Owners of Book-Entry Preferred Securities) as the sole Holder of Book-Entry Preferred Securities and shall have no obligations to the Owners thereof;

(iii) to the extent that the provisions of this Section 5.11 conflict with any other provisions of this Amended and Restated Declaration of Trust, the provisions of this Section 5.11 shall control; and

(iv) the rights of the Owners of the Book-Entry Preferred Securities Certificates shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Owners and the Clearing Agency and/or the Clearing Agency Participants. Pursuant to the Certificate Depository Agreement, unless and until Definitive Preferred Securities Certificates are issued pursuant to Section 5.13, the Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit payments on the Preferred Securities to such Clearing Agency Participants.

(b) A Common Securities Certificate representing the Common Securities shall be issued to the Sponsor in the form of a definitive Common Securities Certificate.

Section 5.12 Notices to Clearing Agency

To the extent a notice or other communication to the Owners is required under this Amended and Restated Declaration of Trust, unless and until Definitive Preferred Securities Certificates shall have been issued to Owners pursuant to Section 5.13, the Trustees shall give all such notices and communications specified herein to be given to Holders to the Clearing Agency, and shall have no obligations to provide notice to the Owners.

Section 5.13 Definitive Preferred Securities Certificates

If (i) the Sponsor advises the Trustees in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities with respect to the Preferred Securities Certificates, and the Sponsor is unable to locate a qualified successor, or (ii) the Sponsor at its option advises the Trustees



in writing that it elects to terminate the book-entry system through the Clearing Agency, then the Administrative Trustees shall notify the Clearing Agency and Holders of the Preferred Securities. Upon surrender to the Administrative Trustees of the typewritten Preferred Securities Certificate or Certificates representing the Book-Entry Preferred Securities Certificates by the Clearing Agency, accompanied by registration instructions, the Administrative Trustees or any one of them shall execute and cause the Property Trustee to authenticate and deliver the Definitive Preferred Securities Certificates in accordance with the instructions of the Clearing Agency. Neither the Securities Registrar nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Preferred Securities Certificates, the Trustees shall recognize the Holders of the Definitive Preferred Securities Certificates as Securityholders. The Definitive Preferred Securities Certificates shall be printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Administrative Trustees, as evidenced by the execution thereof by the Administrative Trustees or any one of them.

#### Section 5.14 Rights of Securityholders

The legal title to the Trust Property is vested exclusively in the Property Trustee (in its capacity as such) in accordance with Section 2.09, and the Securityholders shall not have any right or title therein other than an undivided beneficial interest in the assets of the Trust conferred by their Trust Securities, and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Amended and Restated Declaration of Trust. The Trust Securities shall have no preemptive or other similar rights and when issued and delivered to Securityholders against payment of the purchase price therefor, except as otherwise provided in the Expense Agreement and Section 10.01, will be fully paid and nonassessable by the Trust and will be entitled to the benefits of this Amended and Restated Declaration of Trust. Except as otherwise provided in the Expense Agreement and Section 10.01 with respect to the Holder of the Common Securities, the Holders of the Trust Securities shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

### Article 6

#### Acts of Securityholders; Meetings; Voting

##### Section 6.01 Limitations on Voting Rights.

(a) Except as provided in this Section 6.01, in Sections 8.10 or 10.03, in the Subordinated Indenture, and as otherwise required by law, no Holder of Preferred Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or executing any trust or power conferred on the Indenture Trustee with respect to such Debentures, (ii) waive any past default which is waivable under the Subordinated Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (iv) consent to any amendment, modification or termination of the Subordinated Indenture or the Debentures, where such consent shall be required, or to any other action, as holder of the Debentures, under the Subordinated Indenture, without, in each case, obtaining the prior approval of the Holders of at least 66-2/3% in Liquidation Amount of the

Preferred Securities; provided, however, that where a consent under the Subordinated Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Trustees without the prior written consent of each Holder of Preferred Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of Preferred Securities, except pursuant to a subsequent vote of the Holders of Preferred Securities. The Property Trustee shall notify all Holders of the Preferred Securities of any notice of default received from the Indenture Trustee with respect to the Debentures. In addition to obtaining the foregoing approvals of the Holders of the Preferred Securities, prior to taking any of the foregoing actions, the Administrative Trustees and the Property Trustee shall, at the expense of the Sponsor, obtain an Opinion of Counsel experienced in such matters to the effect that the Trust will not be classified as other than a grantor trust for United States federal income tax purposes on account of such action.

(c) If any proposed amendment to this Amended and Restated Declaration of Trust provides for, or the Trustees otherwise propose to effect, (i) any action that would adversely affect the powers, preferences or special rights of the Preferred Securities, whether by way of amendment to this Amended and Restated Declaration of Trust or otherwise, or (ii) the dissolution, winding-up or termination of the Trust, other than pursuant to the terms of this Amended and Restated Declaration of Trust, then the Holders of Outstanding Preferred Securities as a class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of at least 66-2/3% in the Outstanding Preferred Securities (based upon their Liquidation Amount). In addition to obtaining the foregoing approvals of the Holders of the Preferred Securities, prior to taking any of the foregoing actions, the Administrative Trustees and the Property Trustee shall, at the expense of the Sponsor, obtain an Opinion of Counsel experienced in such matters to the effect that the Trust will not be classified as other than a grantor trust for United States federal income tax purposes on account of such action.

#### Section 6.02 Notice of Meetings

Notice of all meetings of the Preferred Securityholders, stating the time, place and purpose of the meeting, shall be given by the Administrative Trustees pursuant to Section 10.08 to each Preferred Securityholder of record, at his registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

#### Section 6.03 Meetings of Preferred Securityholders

No annual meeting of Securityholders is required to be held. The Administrative Trustees, however, shall call a meeting of Securityholders to vote on any matter upon the written request of the Preferred Securityholders of record of 25% of the Outstanding Preferred Securities (based upon their Liquidation Amount) and the Administrative Trustees or the Property Trustee may, at any time in their discretion, call a meeting of Preferred Securityholders to vote on any matters as to which Preferred Securityholders are entitled to vote.

Preferred Securityholders of record of 50% of the Outstanding Preferred Securities (based upon their Liquidation Amount) present in person or by proxy, shall constitute a quorum at any meeting of Securityholders.

If a quorum is present at a meeting, an affirmative vote by the Preferred Securityholders of record present, in person or by proxy, holding more than 66-2/3% of the Outstanding Preferred Securities (based

upon their Liquidation Amount) held by the Preferred Securityholders of record present, either in person or by proxy, at such meeting shall constitute the action of the Securityholders, unless this Amended and Restated Declaration of Trust requires a greater number of affirmative votes.

#### Section 6.04 Voting Rights

Securityholders shall be entitled to one vote for each \$1,000 of Liquidation Amount represented by their Trust Securities in respect of any matter as to which such Securityholders are entitled to vote.

#### Section 6.05 Proxies, etc.

At any meeting of Securityholders, any Securityholder entitled to vote may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Administrative Trustees, or with such other officer or agent of the Trust as the Administrative Trustees may direct, for verification prior to the time at which such vote shall be taken. A Securityholder may grant a proxy by any means permitted by the General Corporation Law of the State of Delaware. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. No proxy shall be valid more than three years after its date of execution.

#### Section 6.06 Securityholder Action by Written Consent

Any action which may be taken by Securityholders at a meeting may be taken without a meeting if Securityholders holding at least 66-2/3% of all Outstanding Trust Securities (based upon their Liquidation Amount) entitled to vote in respect of such action (or such other proportion thereof as shall be required by any express provision of this Amended and Restated Declaration of Trust) shall consent to the action in writing.

#### Section 6.07 Record Date for Voting and Other Purposes

For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or by written consent, or to participate in any Distribution on the Trust Securities in respect of which a record date is not otherwise provided for in this Amended and Restated Declaration of Trust, or for the purpose of any other action, the Administrative Trustees may from time to time fix a date, not more than 60 days prior to the date of any meeting of Securityholders or the payment of a Distribution or other action, as the case may be, as a record date for the determination of the identity of the Securityholders of record for such purposes.

#### Section 6.08 Acts of Securityholders

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Amended and Restated Declaration of Trust to be given, made or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by an agent appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to the Administrative Trustees. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Securityholders signing such instrument or

instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Amended and Restated Declaration of Trust and (subject to Section 8.01) conclusive in favor of the Trustees, if made in the manner provided in this Section 6.08.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustees deem sufficient.

The ownership of Preferred Securities shall be proved by the Securities Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Securityholder of any Trust Security shall bind every future Securityholder of the same Trust Security and the Securityholder of every Trust Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security.

Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Amount of such Trust Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Amount.

#### Section 6.09 Inspection of Records

Upon reasonable notice to the Trustees, the records of the Trust, and the records of any Trustee as such records relate to the Trust, shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

### Article 7

#### Representations and Warranties of the Property Trustee and Delaware Trustee

##### Section 7.01 Representations and Warranties of Property Trustee

The Trustee that acts as initial Property Trustee represents and warrants to the Trust and to the Sponsor at the date of this Amended and Restated Declaration of Trust, and each Successor Property Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Property Trustee's acceptance of its appointment as Property Trustee that:

(a) The Property Trustee is a national bank with trust powers and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Amended and Restated Declaration of Trust;

(b) The execution, delivery and performance by the Property Trustee of this Amended and Restated Declaration of Trust have been duly authorized by all necessary corporate action on the part of the Property Trustee. This Amended and Restated Declaration of Trust has been duly executed and delivered by the Property Trustee and constitutes a legal, valid and binding obligation of the Property Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) The execution, delivery and performance of this Amended and Restated Declaration of Trust by the Property Trustee do not conflict with or constitute a breach of the charter or by-laws of the Property Trustee; and

(d) No consent, approval or authorization of, or registration with or notice to, any Delaware or federal banking authority is required for the execution, delivery or performance by the Property Trustee of this Amended and Restated Declaration of Trust.

##### Section 7.02 Representations and Warranties of Delaware Trustee

The Trustee that acts as initial Delaware Trustee represents and warrants to the Trust and to the Sponsor at the date of this Amended and Restated Declaration of Trust, and each Successor Delaware Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Delaware Trustee's acceptance of its appointment as Delaware Trustee that:

(a) The Delaware Trustee is duly organized, validly existing and in good standing under the laws of the State of Delaware, with trust power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Amended and Restated

Declaration of Trust;

(b) The execution, delivery and performance by the Delaware Trustee of this Amended and Restated Declaration of Trust have been duly authorized by all necessary corporate action on the part of the Delaware Trustee. This Amended and Restated Declaration of Trust has been duly executed and delivered by the Delaware Trustee and constitutes a legal, valid and binding obligation of the Delaware Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors'

rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) No consent, approval or authorization of, or registration with or notice to, any Delaware or federal banking authority is required for the execution, delivery or performance by the Delaware Trustee of this Amended and Restated Declaration of Trust; and

(d) The Delaware Trustee is a natural person who is a resident of the State of Delaware or, if not a natural person, an entity which has its principal place of business in the State of Delaware.

Article 8  
The Trustees

Section 8.01 Certain Duties and Responsibilities.

(a) The rights, duties and responsibilities of the Trustees shall be as provided by this Amended and Restated Declaration of Trust and, in the case of the Property Trustee, the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Amended and Restated Declaration of Trust shall require the Trustees to expend or risk their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder, or in the exercise of any of their rights or powers, if they shall have reasonable grounds for believing that repayment of such

funds or adequate indemnity against such risk or liability is not reasonably assured to them. Whether or not therein expressly so provided, every provision of this Amended and Restated Declaration of Trust relating to the conduct or affecting the liability of or affording protection to the Trustees shall be subject to the provisions of this Section 8.01.

(b) All payments made by the Property Trustee or a Paying Agent in respect of the Trust Securities shall be made only from the income and proceeds from the Trust Property and only to the extent that there shall be sufficient income or proceeds from the Trust Property to enable the Property Trustee or a Paying Agent to make payments in accordance with the terms hereof. Each Securityholder, by its acceptance of a Trust Security, agrees that it will look solely to the income and proceeds from the Trust Property to the extent available for distribution to it as herein provided and that the Trustees are not personally liable to it for any amount distributable in respect of any Trust Security or for any other liability in respect of any Trust Security. This Section 8.01(b) does not limit the liability of the Trustees expressly set forth elsewhere in this Amended and Restated Declaration of Trust and, in the case of the Property Trustee, in the Trust Indenture Act.

(c) No Trustee shall be liable for its acts or omissions hereunder except as a result of its own gross negligence (or ordinary negligence in the case of the Property Trustee), willful misconduct or bad faith. To the extent that, at law or in equity, a Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to the Securityholders, such Trustee shall not be liable to the Trust or to any Securityholder for such Trustee's good faith reliance on the provisions of this Amended and Restated Declaration of Trust. The provisions of this Amended and Restated Declaration of Trust, to the extent that they restrict the duties and liabilities of the Trustees otherwise existing at law or in equity, are agreed by the Sponsor and the Securityholders to replace such other duties and liabilities of the Trustees (other than the mandatory duties and liabilities of the Property Trustee under the Trust Indenture Act).

(d) No provision of this Amended and Restated Declaration of Trust shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) the Property Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(ii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in Liquidation Amount of the Trust Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Amended and Restated Declaration of Trust;

(iii) the Property Trustee's sole duty with respect to the custody, safe keeping and physical preservation of the Debentures and the Payment Account shall be to deal with such Property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections and limitation on liability afforded to the Property Trustee under this Amended and Restated Declaration of Trust and the Trust Indenture Act;

(iv) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Sponsor, and money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Payment

Account maintained by the Property Trustee pursuant to Section 3.01 and except to the extent otherwise required by law; and

(v) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Sponsor with their respective duties under this Amended and Restated Declaration of Trust, nor shall the Property Trustee be liable for the negligence, default or misconduct of the Administrative Trustees or the Sponsor.

(e) Any direction or act of the Sponsor or the Administrative Trustees contemplated by this Amended and Restated Declaration of Trust shall be sufficiently evidenced by an Officers' Certificate;

The Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement) or any filing under tax or securities laws or any rerecording, refiling, or reregistration thereof;

(f) Whenever in the administration of this Amended and Restated Declaration of Trust the Property Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder as to which the Preferred Securityholders are entitled to vote under the terms of this Amended and Restated Declaration of Trust, the Property Trustee (i) may request instructions from the Holders of the Trust Securities which instructions may only be given by the Holders of the same proportion in Liquidation Amount of the Trust Securities as would be entitled to direct the Property Trustee under the terms of the Trust Securities in respect of such remedy, right or action; (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received; and (iii) shall be protected in acting in accordance with such instructions; and

(g) Except as otherwise expressly provided by this Amended and Restated Declaration of Trust, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Amended and Restated Declaration of Trust. No provision of this Amended and Restated Declaration of Trust shall be deemed to impose any duty or obligations on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

#### Section 8.02 Notice of Defaults

Within 90 days after the occurrence of any Event of Default, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.08, notice of any Event of Default known to the Property Trustee to the Securityholders, the Administrative Trustees, the Guarantor and the Sponsor, unless such Event of Default shall have been cured or waived.

#### Section 8.03 Certain Rights of Property Trustee.

Subject to the provisions of Section 8.01:

(i) the Property Trustee may conclusively rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, Officer's Certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate,



statement, instrument, opinion, report, notice, request, consent, order, appraisal, bond, note or other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(ii) if (A) in performing its duties under this Amended and Restated Declaration of Trust the Property Trustee is required to decide between alternative courses of action, or (B) in construing any of the provisions in this Amended and Restated Declaration of Trust the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein, or (C) the Property Trustee is unsure of the application of any provision of this Amended and Restated Declaration of Trust, then, except as to any matter as to which the Preferred Securityholders are entitled to vote under the terms of this Amended and Restated Declaration of Trust, the Property Trustee shall deliver a notice to the Sponsor requesting written instructions of the Sponsor as to the course of action to be taken. The Property Trustee shall take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Sponsor; provided, however, that if the Property Trustee does not receive such instructions of the Sponsor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than two Business Days), it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with this Amended and Restated Declaration of Trust as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own bad faith, negligence or willful misconduct;

(iii) the Property Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(iv) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Amended and Restated Declaration of Trust at the request or direction of any of the Securityholders pursuant to this Amended and Restated Declaration of Trust, unless such Securityholders shall have offered to the Property Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(v) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, note or other evidence of indebtedness or other document, unless requested in writing to do so by one or more Securityholders;

(vi) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys, and the Property Trustee shall not be liable for the action, default or misconduct of such agents or attorneys, provided that the Property Trustee shall be responsible for its own negligence or recklessness with respect to selection of any agent or attorney appointed by it hereunder; and

(vii) whenever in the administration of this Amended and Restated Declaration of Trust the Property Trustee shall deem it desirable that a matter, including the compliance of any covenant in connection therewith or condition thereto, be established before undertaking, suffering or omitting to take any action hereunder, the Property Trustee may (unless other evidence thereof is herein specifically prescribed), in the absence of bad faith on its part, request and conclusively rely upon an Officer's Certificate which, upon receipt of such request, shall be promptly delivered by the Sponsor or the Administrative Trustees.

Section 8.04 Not Responsible for Recitals or Issuance of Securities

The recitals contained herein and in the Trust Securities Certificates shall be taken as the statements of the Trust, and the Trustees do not assume any responsibility for their correctness. The Trustees shall not be accountable for the use or application by the Trust of the proceeds of the Trust Securities in accordance with Section 2.05.

The Property Trustee may conclusively assume that any funds held by it hereunder are legally available unless a Responsible Officer shall have received written notice from the Sponsor, any Holder or any other Trustee that such funds are not legally available.

Section 8.05 May Hold Securities

Except as provided in the definition of the term "Outstanding" in Article 1, any Trustee or any other agent of the Trustees or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such other agent.

Section 8.06 Compensation; Fees; Indemnity.

The Sponsor agrees:

(1) to pay to the Trustees from time to time reasonable compensation for all services rendered by the Trustees hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Amended and Restated Declaration of Trust (including the reasonable compensation and the expenses and disbursements of their agents and counsel), except to the extent any such expense, disbursement or advance is attributable to their willful misconduct, gross negligence (ordinary negligence in the case of the Property Trustee) or bad faith;

(3) to indemnify each of the Trustees and the Bank for, and to hold each of the Trustees and the Bank harmless against, any and all loss, damage, claims, liability or expense of any kind whatsoever to the extent incurred without willful misconduct, gross negligence (ordinary negligence in the case of the Property Trustee) or bad faith on their part, arising out of or in connection with the acceptance or administration of this Amended and Restated Declaration of Trust, including the costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder; and

(4) to advance expenses (including legal fees) incurred by each of the Trustees and the Bank in defending any claim, demand, action, suit or proceeding, from time to time, prior to the final disposition of such claim, demand, action, suit or proceeding, upon receipt by the Sponsor of an undertaking by or on behalf of such Trustee or the Bank, as the case may be, to repay such amount if it shall be determined such Trustee or the Bank, as the case may be, is not entitled to be indemnified as authorized in this Section 8.06.

The provisions of this Section 8.06 shall survive the resignation or removal of any Trustee or the termination of this Amended and Restated Declaration of Trust.

Section 8.07 Trustees Required; Eligibility.

(a) There shall at all times be a Property Trustee hereunder with respect to the Trust Securities. The Property Trustee shall be a Person that has a combined capital and surplus of at least \$50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section 8.07, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section 8.07, it shall resign immediately in the manner and with the effect hereinafter specified in this Article 8.

(b) There shall at all times be one or more Administrative Trustees hereunder with respect to the Trust Securities. Each Administrative Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind such entity.

(c) There shall at all times be a Delaware Trustee with respect to the Trust Securities. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity authorized to conduct a trust business and with its principal place of business in the State of Delaware that shall act through one or more persons authorized to bind such entity.

Section 8.08 Conflicting Interests.

If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Amended and Restated Declaration of Trust. To the extent permitted by the Trust Indenture Act, the Property Trustee shall not be deemed to have a conflicting interest by virtue of being trustee under the Guarantee.

Section 8.09 Co-Trustees and Separate Trustee.

At any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Holder of the Common Securities and the Property Trustee shall have power to appoint, and upon the written request of the Property Trustee, the Sponsor shall for such purpose join with the Property Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Property Trustee either to act as co-trustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to act as separate trustee of any such Trust Property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section 8.09. If the Sponsor does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case an Indenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment. Any co-trustee or separate trustee appointed pursuant to this Section 8.09 shall satisfy the requirements of Section 8.07.

Should any written instrument from the Sponsor be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right, or power, any and all such instruments shall, on request, be executed, acknowledged, and delivered by the Sponsor.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(i) The Trust Securities shall be executed, authenticated and delivered and all rights, powers, duties, and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustees hereunder, shall be exercised, solely by the Trustees.

(ii) The rights, powers, duties, and obligations hereby conferred or imposed upon the Property Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Property Trustee or by the Property Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Property Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties, and obligations shall be exercised and performed by such co-trustee or separate trustee.

(iii) The Property Trustee at any time, by an instrument in writing executed by it, with the written concurrence of the Sponsor, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 8.09, and, in case an Indenture Event of Default has occurred and is continuing, the Property Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Sponsor. Upon the written request of the Property Trustee, the Sponsor shall join with the Property Trustee in the execution, delivery, and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section 8.09.

(iv) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Property Trustee, or any other such trustee hereunder.

(v) The Trustees shall not be liable by reason of any act of a co-trustee or separate trustee.

(vi) Any Act of Holders delivered to the Property Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

#### Section 8.10 Resignation and Removal; Appointment of Successor

No resignation or removal of any Trustee (the "Relevant Trustee") and no appointment of a successor Relevant Trustee pursuant to this Article 8 shall become effective until the acceptance of appointment by the successor Relevant Trustee in accordance with the applicable requirements of Section 8.11.

If the Relevant Trustee is an Administrative Trustee, such Relevant Trustee may resign at any time by giving written notice thereof to the other Trustees and to the Sponsor. If the Relevant Trustee is a Trustee other than an Administrative Trustee, such Relevant Trustee may resign at any time by giving written notice thereof to the Securityholders. If the instrument of acceptance by a successor Relevant Trustee required by Section 8.11 shall not have been delivered to the Relevant Trustee within 30 days after the giving of such notice of resignation, the resigning Relevant Trustee may petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

Unless an Indenture Event of Default shall have occurred and be continuing, the Relevant Trustee may be removed at any time by Act of the Holder of the Common Securities. If an Indenture Event of Default shall have occurred and be continuing, the Relevant Trustee may be removed at such time by Act of the Securityholders of a majority in Liquidation Amount of the Preferred Securities Certificates, delivered to the Relevant Trustee (in its individual capacity and on behalf of the Trust); provided, however, that an Administrative Trustee may be appointed, removed or replaced only by an Act of the Holders of a majority in Liquidation Amount of the Common Securities.

If the Relevant Trustee shall resign, be removed or become incapable of continuing to act as Trustee at a time when no Indenture Event of Default shall have occurred and be continuing, the Holder of the Common Securities, by Act of the Holder of the Common Securities delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee or Trustees, and the retiring Relevant Trustee shall comply with the applicable requirements of Section 8.11. If the Relevant Trustee (other than an Administrative Trustee) shall resign, be removed or become incapable of continuing to act as the Relevant Trustee at a time when an Indenture Event of Default shall have occurred and be continuing, the Holders of Preferred Securities, by Act of the Securityholders of a majority in Liquidation Amount of the Preferred Securities then outstanding delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee or Trustees, and the Relevant Trustee shall comply with the applicable requirements of Section 8.11. If no successor Relevant Trustee shall have been so appointed in accordance with this Section 8.10 and accepted appointment in the manner required by Section 8.11, any Securityholder who has been a Securityholder of Trust Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

The retiring Relevant Trustee shall give notice of each resignation and each removal of the Relevant Trustee, and each appointment of a successor Trustee to all Securityholders in the manner provided in Section 10.08 and shall give notice to the Sponsor. Each notice shall include the name of the successor Relevant Trustee and the address of its Corporate Trust Office if it is the Property Trustee.

Notwithstanding the foregoing or any other provision of this Amended and Restated Declaration of Trust, in the event any Administrative Trustee or a Delaware Trustee who is a natural person dies or becomes incompetent or incapacitated or resigns, the vacancy created by such death, incompetence or incapacity or resignation may be filled by (i) the act of the remaining Administrative Trustee or (ii) otherwise by the Sponsor (with the successor in each case being an individual who satisfies the eligibility requirement for Administrative Trustees set forth in Section 8.07). Additionally, notwithstanding the foregoing or any other provision of this Amended and Restated Declaration of Trust, in the event the Sponsor believes that any Administrative Trustee has become incompetent or incapacitated, the Sponsor, by notice to the remaining Trustees, may terminate the status of such Person as an Administrative Trustee (in which case the vacancy so created will be filled in accordance with the preceding sentence).

#### Section 8.11 Acceptance of Appointment by Successor

In case of the appointment hereunder of a successor Relevant Trustee, every such successor Relevant Trustee so appointed shall execute, acknowledge and deliver to the Trust and to the retiring Relevant Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Relevant Trustee shall become effective and such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on the request of the Sponsor or the successor Relevant Trustee, such retiring Relevant Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Relevant Trustee all the rights, powers and trusts of the retiring Relevant Trustee and shall duly assign, transfer and deliver to such successor Relevant Trustee all property and money held by such retiring Relevant Trustee hereunder.

Upon request of any such successor Relevant Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Relevant Trustee all such rights, powers and trusts referred to in the preceding paragraph.

No successor Relevant Trustee shall accept its appointment unless at the time of such acceptance such successor Relevant Trustee shall be qualified and eligible under this Article 8.

#### Section 8.12 Merger, Conversion, Consolidation or Succession to Business

Any Person into which the Property Trustee, Delaware Trustee or any Administrative Trustee which is not a natural person may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Relevant Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of such Relevant Trustee, shall be the successor of such Relevant Trustee hereunder, provided such Person shall be otherwise qualified and eligible under this Article 8, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

#### Section 8.13 Preferential Collection of Claims Against Sponsor or Trust

If and when the Property Trustee shall be or become a creditor of the Sponsor or the Trust (or any other obligor upon the Debentures or the Trust Securities), the Property Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Sponsor or Trust (or any such other obligor). For purposes of Section 311(b)(4) and (6) of the Trust Indenture Act:

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Sponsor or the Trust (or any such obligor) for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Property Trustee simultaneously with the creation of the creditor relationship with the Sponsor or the Trust (or any such obligor) arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

#### Section 8.14 Reports by Property Trustee.

(a) Within 60 days after May 15 of each year commencing with May 15, 2004, if required by Section 313(a) of the Trust Indenture Act, the Property Trustee shall transmit a brief report dated as of such May 15 with respect to any of the events specified in such Section 313(a) that may have occurred since the later of the date of this Amended and Restated Declaration of Trust or the preceding May 15.

(b) The Property Trustee shall transmit to Securityholders the reports required by Section 313(b) of the Trust Indenture Act at the times specified therein.

(c) Reports pursuant to this Section 8.14 shall be transmitted in the manner and to the Persons required by Sections 313(c) and (d) of the Trust Indenture Act.

Section 8.15 Reports to the Property Trustee

The Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any) and, within 120 days after the end of each fiscal year of the Sponsor, the compliance certificate required by Section 314(a)(4) of the Trust Indenture Act in the form and in the manner required by Section 314 of the Trust Indenture Act.

Section 8.16 Evidence of Compliance with Conditions Precedent

Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent, if any, provided for in this Amended and Restated Declaration of Trust that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given pursuant to Section 314(c)(1) of the Trust Indenture Act shall comply with Section 314(e) of the Trust Indenture Act.

Section 8.17 Number of Trustees.

(a) The number of Trustees shall initially be five, provided that the Sponsor by written instrument may increase or decrease the number of Administrative Trustees.

(b) If a Trustee ceases to hold office for any reason and the number of Administrative Trustees is not reduced pursuant to Section 8.17(a), or if the number of Trustees is increased pursuant to Section 8.17(a), a vacancy shall occur. The vacancy shall be filled with a Trustee appointed in accordance with Section 8.10.

(c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of a Trustee shall not operate to annul, dissolve or terminate the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 8.10, the Administrative Trustees in office, regardless of their number (and notwithstanding any other provision of this Amended and Restated Declaration of Trust), shall have all powers granted to the Administrative Trustees and shall discharge the duties imposed upon the Administrative Trustees by this Amended and Restated Declaration of Trust.

Section 8.18 Delegation of Power.

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purpose of executing any documents contemplated in Section 2.07(A), including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing; and

(b) The Administrative Trustees shall have power to delegate from time to time to such of their number the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

Section 8.19 Enforcement of Rights of Property Trustee by Securityholders

If (i) the Trust fails to pay Distributions in full on the Preferred Securities for more than ten consecutive semiannual distribution periods, or (ii) an Event of Default occurs and is continuing, then the Holders of Preferred Securities will rely on the enforcement by the Property Trustee of its rights against the Sponsor as the holder of the Debentures. In addition, the Holders of a majority in aggregate Liquidation Amount of the Preferred Securities will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Property Trustee or to direct the exercise of any trust or power conferred upon the Property Trustee under this Amended and Restated Declaration of Trust, including the right to direct the Property Trustee to exercise the remedies available to it as a holder of the Debentures, provided that such direction shall not be in conflict with any rule of law or with this Amended and Restated Declaration of Trust, and could not involve the Property Trustee in personal liability in circumstances where reasonable indemnity would not be adequate. If the Property Trustee fails to enforce its rights under the Debentures, a Holder of Preferred Securities may, to the fullest extent permitted by applicable law, institute a legal proceeding against the Sponsor to enforce such Holder's rights under this Amended and Restated Declaration of Trust without first instituting any legal proceeding against the Property Trustee or any other Person, including the Trust; it being understood and intended that no one or more of such Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Amended and Restated Declaration of Trust to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Amended and Restated Declaration of Trust, except in the manner herein provided and for the equal and ratable benefit of all such Holders. Notwithstanding the foregoing, to the fullest extent permitted by applicable law, a Holder of Preferred Securities may institute a legal proceeding directly against the Sponsor without first instituting a legal proceeding against or requesting or directing that action be taken by the Property Trustee or any other Person, for enforcement of payment to such Holder of principal of or interest on the Debentures having a principal amount equal to the aggregate stated Liquidation Amount of the Preferred Securities of such Holder on or after the due dates therefor specified or provided for in the Debentures. The Sponsor shall be subrogated to all rights of the Holders of Preferred Securities in respect of any amounts paid to such Holders by the Sponsor pursuant to this Section 8.19.

Article 9  
Termination and Liquidation

Section 9.01 Termination Upon Expiration Date

The Trust shall automatically dissolve on June 15, 2034 (the "Expiration Date") or earlier pursuant to Section 9.02.

Section 9.02 Early Termination

Upon the first to occur of any of the following events (such first occurrence, an "Early Termination Event"), the Trust shall be dissolved in accordance with the terms hereof:

(i) the occurrence of a Bankruptcy Event in respect of the Sponsor, dissolution or liquidation of the Sponsor, or the dissolution of the Trust pursuant to judicial decree;

(ii) the delivery of written direction to the Property Trustee by the Sponsor at any time (which direction is optional and wholly within the discretion of the Sponsor) to dissolve the Trust and distribute the Debentures to Securityholders as provided in Section 9.04; and



(iii) the payment at maturity or redemption of all of the Debentures, and the consequent payment of the Preferred Securities.

#### Section 9.03 Termination

The respective obligations and responsibilities of the Trust and the Trustees created hereby shall terminate upon the latest to occur of the following: (a) the distribution of the Debentures by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 9.04, or, upon the redemption of all of the Trust Securities pursuant to Section 4.02, the distribution of all amounts or instruments required to be distributed hereunder upon the final payment of the Trust Securities; (b) the payment of any expenses owed by the Trust; (c) the discharge of all administrative duties of the Administrative Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders; and (d) the filing of a certificate of cancellation pursuant to the Delaware Statutory Trust Act.

#### Section 9.04 Liquidation.

(a) If any Early Termination Event specified in clause (ii) of Section 9.02 occurs, the Trust shall be liquidated and the Property Trustee shall distribute the Debentures to the Securityholders as provided in this Section 9.04.

(b) In connection with a distribution of the Debentures, each Holder of Trust Securities shall be entitled to receive, after the satisfaction (whether by payment or reasonable provision for payment) of liabilities to creditors of the Trust (as evidenced by a certificate of the Administrative Trustees), a Like Amount of Debentures. Notice of liquidation shall be given by the Trustees by first-class mail, postage prepaid, mailed not later than 30 nor more than 60 days prior to the Liquidation Date to each Holder of Trust Securities at such Holder's address appearing in the Securities Register. All notices of liquidation shall:

(i) state the Liquidation Date;

(ii) state that from and after the Liquidation Date, the Trust Securities will no longer be deemed to be Outstanding and any Trust Securities Certificates not surrendered for exchange will be deemed to represent a Like Amount of Debentures; and

(iii) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for Debentures as the Administrative Trustees or the Property Trustee shall deem appropriate.

(c) In order to effect the winding up of the Trust and distribution of the Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be not more than 45 days prior to the Liquidation Date) and, either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of Debentures in exchange for the Outstanding Trust Securities Certificates.

(d) After the Liquidation Date, (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) certificates representing a Like Amount of Debentures will be issued to Holders of Trust Securities Certificates, upon surrender of such certificates to the Administrative Trustees or their agent for exchange, (iii) any Trust Securities Certificates not so surrendered for exchange will be deemed to represent a Like Amount of Debentures, accruing interest at the rate provided for in

the Debentures from the last Distribution Date on which a Distribution was made on such Trust Certificates until such certificates are so surrendered (and until such certificates are so surrendered, no payments of interest or principal will be made to Holders of Trust Securities Certificates with respect to such Debentures) and (iv) all rights of Securityholders holding Trust Securities will cease, except the right of such Securityholders to receive Debentures upon surrender of Trust Securities Certificates.

(e) The Sponsor will use its commercially reasonable best efforts to have the Debentures that are distributed in exchange for the Preferred Securities listed on such securities exchange as the Preferred Securities are then listed. The Sponsor may elect to have the Debentures issued in book-entry form to the Clearing Agency or its nominee.

#### Section 9.05 Bankruptcy

If an Early Termination Event specified in clause (i) of Section 9.02 has occurred, the Trust shall be liquidated. The Property Trustee shall distribute the Debentures to the Securityholders as provided in Section 9.04, unless such distribution is determined by the Administrative Trustees not to be practical, in which event the Holders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of liabilities to creditors, an amount equal to the Liquidation Amount per Trust Security plus accrued and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If such Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a pro rata basis (based upon Liquidation Amounts). The Holder of the Common Securities will be entitled to receive Liquidation Distributions upon any such winding-up pro rata (determined as aforesaid) with Holders of Preferred Securities, except that, if an Indenture Event of Default has occurred and is continuing, the Preferred Securities shall have a priority over the Common Securities.

### Article 10 Miscellaneous Provisions

#### Section 10.01 Expense Agreement

The Sponsor shall, contemporaneously with the execution and delivery of this Amended and Restated Declaration of Trust, execute and deliver the Expense Agreement.

#### Section 10.02 Limitation of Rights of Securityholders

The death or incapacity of any Person having an interest, beneficial or otherwise, in a Trust Security shall not operate to terminate this Amended and Restated Declaration of Trust, nor dissolve, terminate or annul the Trust, nor entitle the legal representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in and for a partition or winding up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

#### Section 10.03 Amendment.

(a) This Amended and Restated Declaration of Trust may be amended from time to time by the Administrative Trustees and the Sponsor, without the consent of any Securityholders, (i) to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions

arising under this Amended and Restated Declaration of Trust, which shall not be inconsistent with the other provisions of this Amended and Restated Declaration of Trust, provided, however, that any such amendment shall not adversely affect in any material respect the interests of any Securityholder or the rights, duties, immunities or liabilities of the other Trustees, or (ii) to modify, eliminate or add to any provisions of this Amended and Restated Declaration of Trust to such extent as shall be necessary to ensure that the Trust will not be classified as other than a grantor trust for United States federal income tax purposes at any time that any Trust Securities are outstanding. Any amendments of this Amended and Restated Declaration of Trust pursuant to this Section 10.03(a) shall become effective when notice thereof is given to the Securityholders. Except as provided in Section 10.03(c), any provision in this Amended and Restated Declaration of Trust may be amended by the Trust or the Trustees with (i) the consent of Trust Securityholders representing not less than 66-2/3% (based upon Liquidation Amounts) of the Outstanding Trust Securities (such consent being obtained in accordance with Section 6.03 or 6.06) and (ii) receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust for United States federal income tax purposes or the Trust's exemption from status of an "investment company" under the Investment Company Act of 1940, as amended.

(b) In addition to and notwithstanding any other provision in this Amended and Restated Declaration of Trust, without the consent of each affected Securityholder, this Amended and Restated Declaration of Trust may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date, (ii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment on or after such date, or (iii) change the consent required pursuant to this Section 10.03.

(c) Notwithstanding any other provisions of this Amended and Restated Declaration of Trust, the Trustees shall not enter into or consent to any amendment to this Amended and Restated Declaration of Trust which would cause the Trust (i) to fail or cease to qualify for exemption from status of an "investment company" under the Investment Company Act of 1940, as amended or (ii) not to be characterized for United States federal income tax purposes as a grantor trust and each Securityholder not to be treated as owning an undivided beneficial ownership interest in the Debentures.

(d) Without the consent of the Sponsor, this Amended and Restated Declaration of Trust may not be amended in a manner which imposes any additional obligation on the Sponsor. In executing any amendment permitted by this Amended and Restated Declaration of Trust, the Trustees shall be entitled to receive, and (subject to Section 8.03) shall be fully protected in relying upon an Opinion of Counsel and an Officer's Certificate stating that the execution of such amendment is authorized or permitted by this Amended and Restated Declaration of Trust. Any Trustee may, but shall not be obligated to, enter into any such amendment which affects such Trustee's own rights, duties, immunities or liabilities under this Amended and Restated Declaration of Trust or otherwise.

(e) In the event that any amendment to this Amended and Restated Declaration of Trust is made, the Administrative Trustees shall promptly provide to the Sponsor a copy of such amendment.

Section 10.04 Separability

In case any provision in this Amended and Restated Declaration of Trust or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.05 Governing Law

THIS AMENDED AND RESTATED DECLARATION OF TRUST AND THE RIGHTS AND OBLIGATIONS OF EACH OF THE SECURITYHOLDERS, THE TRUST AND THE TRUSTEES WITH RESPECT TO THIS AMENDED AND RESTATED DECLARATION OF TRUST AND THE TRUST SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF DELAWARE.

Section 10.06 Successors

This Amended and Restated Declaration of Trust shall be binding upon and shall inure to the benefit of any successor to the Trust, the Trustees and the Sponsor, including any successor by operation of law.

Section 10.07 Headings

The Article and Section headings are for convenience only and shall not affect the construction of this Amended and Restated Declaration of Trust.

Section 10.08 Notice and Demand

Any notice, demand or other communication which by any provision of this Amended and Restated Declaration of Trust is required or permitted to be given or served to or upon any Securityholder or the Sponsor may be given or served in writing by deposit thereof, first-class postage prepaid, in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (i) in the case of a Preferred Securityholder, to such Preferred Securityholder as such Securityholder's name and address appear on the Securities Register and (ii) in the case of the Common Securityholder or the Sponsor, to PECO Energy Company, 2301 Market Street, Philadelphia, PA 19101, Attention: Treasurer, Facsimile No. (215) 841-4474. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given or made, for all purposes, upon hand delivery, mailing or transmission.

Any notice, demand or other communication which by any provision of this Amended and Restated Declaration of Trust is required or permitted to be given or served to or upon the Trust or the Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: (i) with respect to the Property Trustee and the Delaware Trustee, Wachovia Trust Company, National Association, Wachovia Trust Company, National Association, One Rodney Square, 920 King Street, Suite 102, Wilmington, DE 19801, Attention: Corporate Trust Administration/Delaware, Facsimile No: (302) 888-7544; and (ii) with respect to the Administrative Trustees, to them at the address above for notices to the Sponsor, marked Attention: Administrative Trustees of PECO Energy Capital Trust IV, c/o Secretary. Such notice, demand or other communication to or upon the Trust or the Trustees shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the applicable Trustee.

Section 10.09 Agreement Not to Petition

Each of the Trustees and the Sponsor agrees for the benefit of the Securityholders that, until at least one year and one day after the Trust has been terminated in accordance with Article 9, it shall not file, or

join in the filing of, a petition against the Trust under any bankruptcy, reorganization, arrangement, insolvency, liquidation or other similar law (including, without limitation, the United States Bankruptcy Code) (collectively, "Bankruptcy Laws") or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Sponsor takes action in violation of this Section 10.09, the Property Trustee agrees, for the benefit of Securityholders, that it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Sponsor against the Trust or the commencement of such action and raise the defense that the Sponsor has agreed in writing not to take such action and should be stopped and precluded therefrom and such other defenses, if any, as counsel for the Trustees or the Trust may assert. The provisions of this Section 10.09 shall survive the termination of this Amended and Restated Declaration of Trust.

Section 10.10 Conflict with Trust Indenture Act.

(a) This Amended and Restated Declaration of Trust is subject to the provisions of the Trust Indenture Act that are required to be part of this Amended and Restated Declaration of Trust and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Amended and Restated Declaration of Trust by any of the provisions of the Trust Indenture Act, such required provision shall control.

(d) The application of the Trust Indenture Act to this Amended and Restated Declaration of Trust shall not affect the nature of the Trust Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

Section 10.11 Counterparts

This Amended and Restated Declaration of Trust may contain more than one counterpart of the signature page and this Amended and Restated Declaration of Trust may be executed by the affixing of the signature of each of the Trustees to one of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

Section 10.12 No Preemptive Rights

Holders of Trust Securities shall have no preemptive or similar rights to subscribe for any additional securities of the Trust.

THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR ANY BENEFICIAL OWNER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS AMENDED AND RESTATED DECLARATION OF TRUST AND AGREEMENT TO THE SUBORDINATION PROVISIONS AND OTHER TERMS OF THE GUARANTEE AND THE SUBORDINATED INDENTURE AND THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THOSE TERMS AND PROVISIONS SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Declaration of Trust or have caused this Amended and Restated Declaration of Trust to be executed on their behalf, all as of the day and year first above written.

PECO ENERGY COMPANY,  
as Sponsor

By: /s/ J. Barry Mitchell  
-----  
Name: J. Barry Mitchell  
Title: Vice President and Treasurer

WACHOVIA TRUST COMPANY, NATIONAL  
ASSOCIATION,  
as Property Trustee and Delaware Trustee

By: /s/ Rita Marie Ritrovato  
-----  
Name: Rita M. Ritrovato  
Title: Trust Officer

/s/ J. Barry Mitchell  
-----  
J. Barry Mitchell, as Administrative Trustee

/s/ George R. Shicora  
-----  
George R. Shicora, as Administrative Trustee

/s/ Charles Walls  
-----  
Charles S. Walls, as Administrative Trustee

EXHIBIT A

THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT AS PROVIDED  
IN THE AMENDED AND RESTATED DECLARATION OF TRUST REFERRED TO HEREIN

|                    |                             |
|--------------------|-----------------------------|
| Certificate Number | Number of Common Securities |
| C-1                | 3,093                       |

Certificate Evidencing Common Securities  
of  
PECO Energy Capital Trust IV  
5.75% Common Securities

(Liquidation amount \$1,000 per Common Security)

PECO Energy Capital Trust IV, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that PECO Energy Company, a Pennsylvania corporation (the "Holder"), is the registered owner of Three Thousand Ninety Three (3,093) common securities of the Trust representing undivided beneficial interests in the assets of the Trust and designated the 5.75% Common Securities (liquidation amount \$1,000 per Common Security) (the "Common Securities"). In accordance with Section 5.10 of the Amended and Restated Declaration of Trust (as defined below), the Common Securities are not transferable, except by operation of law, and any, to the fullest extent permitted by law, attempted transfer hereof shall be void. The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities are set forth in, and this certificate and the Common Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Declaration of Trust of the Trust dated as of June 24, 2003, as the same may be amended from time to time (the "Amended and Restated Declaration of Trust"), including the designation of the terms of the Common Securities as set forth therein. Capitalized terms used herein but not defined shall have the meaning given to them in the Amended and Restated Declaration of Trust. The Trust will furnish a copy of the Amended and Restated Declaration of Trust and the Subordinated Indenture to the Holder without charge upon written request to the Trust at its principal place of business.

Upon receipt of this certificate, the Holder is bound by the Amended and Restated Declaration of Trust and is entitled to the benefits thereunder.

By acceptance, the Holder agrees to treat, for United States federal income tax purposes, the Debentures as indebtedness and the Common Securities as evidence of indirect beneficial ownership in the Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate  
this 24th day of June, 2003.

PECO Energy Capital Trust IV

By: \_\_\_\_\_  
J. Barry Mitchell, as Administrative Trustee

CERTIFICATE OF AUTHENTICATION

This is one of the Common Securities referred to in the  
within-mentioned Amended and Restated Declaration of Trust.

Dated: June 24, 2003

WACHOVIA TRUST COMPANY, NATIONAL  
ASSOCIATION,  
Not in its individual capacity but solely  
as Property Trustee

By: \_\_\_\_\_  
Authorized Signatory



[FORM OF REVERSE OF SECURITY]

Each Common Security will be entitled to receive cumulative Distributions at a rate of 5.75% per annum applied to the stated liquidation amount of \$1,000 per Common Security, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Distributions in arrears for more than one semiannual period will bear interest thereon compounded semiannually at a rate of 5.75% per annum (to the extent permitted by applicable law). Distributions shall be made and shall be deemed payable on each Distribution Date only to the extent that the Trust has legally and immediately available funds in the Payment Account for the payment of such Distributions. The amount of Distributions payable for any full semiannual period will be computed on the basis of a 360-day year of twelve 30-day months, and for any period shorter than a full month for which Distributions are computed, Distributions will be computed on the basis of the actual number of days elapsed in such month.

Distributions on the Common Securities will be cumulative, will accrue from the Issue Date and, except in the event that the Sponsor exercises its right to extend the interest payment period for the Debentures pursuant to the Subordinated Indenture, will be payable semiannually in arrears on June 15 and December 15 of each year, commencing on December 15, 2003. Distributions, including Additional Amounts (as defined below), if any, on the Common Securities on each Distribution Date will be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record dates. The relevant record dates for the Common Securities shall be the same record date as for the Preferred Securities, which shall be one Business Day prior to the relevant payment dates which payment dates correspond to the interest payment dates on the Debentures. If the interest payment period for the Debentures is extended by the Sponsor pursuant to the Subordinated Indenture (an "Extension Period"), no interest will be due and payable on the Debentures. Before the termination of any such Extension Period, the Sponsor may further defer payments of interest on the Debentures by further extending such Extension Period, provided, that such Extension Period, together with all such further extensions of such Extension Period, may not exceed ten consecutive semiannual periods or extend beyond the maturity date of the Debentures. As a consequence of an Extension Period, Distributions will also be deferred, provided that semiannual Distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at a rate of 5.75% per annum, compounded semiannually ("Additional Amounts") during any such Extension Period. The payment of such deferred interest, together with Additional Amounts, will be distributed to the Holders of the Trust Securities as received at the end of any Extension Period; provided, however, that the Trust may distribute such amounts earlier if the Sponsor prepays interest accrued on the Debentures prior to the end of any Extension Period as permitted by the Subordinated Indenture.

If on any Distribution Date or Redemption Date an Indenture Event of Default shall have occurred and be continuing, no payment of any Distribution (including Additional Amounts, if applicable) on, or the applicable Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions (including Additional Amounts, if applicable) on all Outstanding Preferred Securities for all distribution periods terminating on or prior thereto, or in the case of payment of the applicable Redemption Price the full amount of such Redemption Price on all Outstanding Preferred Securities, shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions (including Additional Amounts, if applicable) on, or the applicable Redemption Price of, Preferred Securities then due and payable.

Subject to certain conditions set forth in the Amended and Restated Declaration of Trust and the Subordinated Indenture, the Property Trustee may, at the direction of the Sponsor, at any time dissolve the Trust and cause, after the satisfaction of liabilities to creditors of the Trust, the Debentures to be

distributed to the holders of the Trust Securities in liquidation of the Trust or, simultaneously with any redemption of the Debentures, cause a Like Amount of the Trust Securities to be redeemed by the Trust.

The Common Securities shall be redeemable as provided in the Amended and Restated Declaration of Trust.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Common Security to:

(Insert assignee's social security or tax identification number)

(Insert address and zip code of assignee)

and irrevocably appoints

agent to transfer this Common Securities Certificate on the books of the Trust. The agent may substitute another to act for him or her.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Common Security Certificate)

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EXHIBIT B

AGREEMENT AS TO EXPENSES AND LIABILITIES

THIS AGREEMENT AS TO EXPENSES AND LIABILITIES (this "Agreement") is made as of June 24, 2003, between PECO Energy Company, a Pennsylvania corporation (the "Company"), and PECO Energy Capital Trust IV, a Delaware statutory trust (the "Trust").

WHEREAS, the Trust intends to issue its Common Securities (the "Common Securities") to and receive Debentures from the Company, and to issue and sell to the public its 5.75% Preferred Securities (the "Preferred Securities") with such powers, preferences and special rights and restrictions as are set forth in the Amended and Restated Declaration of Trust of the Trust dated as of June 24, 2003, as the same may be amended from time to time (the "Amended and Restated Declaration of Trust"); and

WHEREAS, the Company is the guarantor of the Preferred Securities.

NOW, THEREFORE, in consideration of the purchase by each holder of the Preferred Securities, which purchase the Company hereby agrees shall benefit the Company and which purchase the Company acknowledges will be made in reliance upon the execution and delivery of this Agreement, the Company and the Trust hereby agree as follows:

ARTICLE I

Section 1.01. Guarantee by the Company. Subject to the terms and conditions hereof, the Company hereby irrevocably and unconditionally guarantees to each person or entity to whom the Trust is now or hereafter becomes indebted or liable (the "Beneficiaries") the full payment, when and as due, of any and all Obligations (as hereinafter defined) to such Beneficiaries. As used herein, "Obligations" means any indebtedness, expenses or liabilities of the Trust, other than obligations of the Trust to pay to holders of any Preferred Securities or other similar interests in the Trust the amounts due such holders pursuant to the terms of the Preferred Securities or such other similar interests, as the case may be. This Agreement is intended to be for the benefit of, and to be enforceable by, all such Beneficiaries, whether or not such Beneficiaries have received notice hereof.

Section 1.02. Term of Agreement. This Agreement shall terminate and be of no further force and effect upon the date on which there are no Beneficiaries remaining; provided, however, that this Agreement shall continue to be effective or shall be reinstated, as the case may be, if at any time any holder of Preferred Securities or any Beneficiary must restore payment of any sums paid under the Preferred Securities, under any Obligation, under the Preferred Securities Guarantee Agreement dated the date hereof between the Company and Wachovia Trust Company, National Association, as guarantee trustee, or under this Agreement for any reason whatsoever. This Agreement is continuing, irrevocable, unconditional and absolute.

Section 1.03. Waiver of Notice. The Company hereby waives notice of acceptance of this Agreement and of any Obligation to which it applies or may apply, and the Company hereby waives presentment, demand for payment, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

Section 1.04. No Impairment. The obligations, covenants,

agreements and duties of the Company under this Agreement shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

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(a) the extension of time for the payment by the Trust of all or any portion of the Obligations or for the performance of any other obligation under, arising out of, or in connection with, the Obligations;

(b) any failure, omission, delay or lack of diligence on the part of the Beneficiaries to enforce, assert or exercise any right, privilege, power or remedy conferred on the Beneficiaries with respect to the Obligations or any action on the part of the Trust granting indulgence or extension of any kind; or

(c) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Trust or any of the assets of the Trust.

There shall be no obligation of the Beneficiaries to give notice to, or obtain the consent of, the Company with respect to the happening of any of the foregoing.

Section 1.05. Enforcement. A Beneficiary may enforce this Agreement directly against the Company and the Company waives any right or remedy to require that any action be brought against the Trust or any other person or entity before proceeding against the Company.

## ARTICLE II

Section 2.01. Binding Effect. All guarantees and agreements contained in this Agreement shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the Beneficiaries.

Section 2.02. Amendment. So long as there remains any Beneficiary or any Preferred Securities of any series are outstanding, this Agreement shall not be modified or amended in any manner adverse to such Beneficiary or to the holders of the Preferred Securities.

Section 2.03. Notices. Any notice, request or other communication required or permitted to be given hereunder shall be given in writing by delivering the same against receipt therefor by facsimile transmission (confirmed by mail), telex or by registered or certified mail, addressed as follows (and if so given, shall be deemed given when mailed or upon receipt of an answer-back, if sent by telex):

If to the Company:

PECO Energy Company  
2301 Market Street  
Philadelphia, PA 19101  
Attention: Treasurer

If to the Trust:

PECO Energy Capital Trust IV  
c/o PECO Energy Company  
2301 Market Street  
Philadelphia, PA 19101  
Attention: Treasurer

Section 2.04. THIS AGREEMENT SHALL BE GOVERNED BY AND  
CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF  
PENNSYLVANIA.

THIS AGREEMENT is executed as of the date and year first above  
written.

PECO ENERGY COMPANY

By: \_\_\_\_\_  
Name:  
Title:

PECO Energy Capital Trust IV

By: \_\_\_\_\_  
J. Barry Mitchell, as Administrative Trustee

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EXHIBIT C

This Preferred Security is a Book-Entry Preferred Securities Certificate within the meaning of the Amended and Restated Declaration of Trust hereinafter referred to and is registered in the name of The Depository Trust Company (the "Depository") or a nominee of the Depository. This Preferred Security is exchangeable for Preferred Securities registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Amended and Restated Declaration of Trust and no transfer of this Preferred Security (other than a transfer of this Preferred Security as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository) may be registered except in limited circumstances.

Unless this Preferred Security is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the Trust or its agent for registration of transfer, exchange or payment, and any Preferred Security issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

|                    |                                |
|--------------------|--------------------------------|
| Certificate Number | Number of Preferred Securities |
| P-1                | 100,000                        |

CUSIP NO. 69335G AA 3

Certificate Evidencing Preferred Securities  
of  
PECO Energy Capital Trust IV  
5.75% Trust Preferred Securities  
(Liquidation amount \$1,000 per Preferred Security)

PECO Energy Capital Trust IV, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Cede & Co. (the "Holder") is the registered owner of One Hundred Thousand (100,000) preferred securities of the Trust representing undivided beneficial interests in the assets of the Trust and designated the PECO Energy Capital Trust IV 5.75% Trust Preferred Securities (liquidation amount \$1,000 per Preferred Security) (the "Preferred Securities"). The Preferred Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer as provided in Section 5.04 of the Amended and Restated Declaration of Trust (as defined below). The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Preferred Securities are set forth in, and this certificate and the Preferred Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Declaration of Trust of the Trust, dated as of June 24, 2003, as the same may be amended from time to time (the "Amended and Restated Declaration of Trust"), including the designation of the terms of Preferred Securities as set forth therein. Capitalized terms used herein but not defined shall have the meaning given them in the Amended and Restated Declaration of Trust. The holder of this certificate is entitled to the benefits of the Guarantee to the extent provided therein. The Trust will furnish a copy of the Amended and Restated Declaration of Trust, the Guarantee and the Subordinated Indenture to the holder of this certificate without charge upon written request to the Trust at its principal place of business.

Upon receipt of this certificate, the holder of this certificate is bound by the Amended and Restated Declaration of Trust and is entitled to the benefits thereunder.

By acceptance, the holder of this certificate agrees to treat, for United States federal income tax purposes, the Debentures as indebtedness and the Preferred Securities as evidence of indirect beneficial ownership in the Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate this 24th day of June, 2003.

PECO Energy Capital Trust IV

By: \_\_\_\_\_  
J. Barry Mitchell, as Administrative Trustee



CERTIFICATE OF AUTHENTICATION

This is one of the Preferred Securities referred to in the within-mentioned Amended and Restated Declaration of Trust.

Dated: June 24, 2003

WACHOVIA TRUST COMPANY, NATIONAL  
ASSOCIATION,  
Not in its individual capacity but solely  
as Property Trustee

By: \_\_\_\_\_  
Name:  
Title:

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[FORM OF REVERSE OF SECURITY]

Each Preferred Security will be entitled to receive cumulative Distributions at a rate of 5.75% per annum applied to the stated liquidation amount of \$1,000 per Preferred Security, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Distributions in arrears for more than one semiannual period will bear interest thereon compounded semiannually at a rate of 5.75% per annum (to the extent permitted by applicable law). Distributions shall be made and shall be deemed payable on each Distribution Date only to the extent that the Trust has legally and immediately available funds in the Payment Account for the payment of such Distributions. The amount of Distributions payable for any full semiannual period will be computed on the basis of a 360-day year of twelve 30-day months, and for any period shorter than a full month for which Distributions are computed, Distributions will be computed on the basis of the actual number of days elapsed in such month.

Distributions on the Preferred Securities will be cumulative, will accrue from the Issue Date and, except in the event that the Sponsor exercises its right to extend the interest payment period for the Debentures pursuant to the Subordinated Indenture, will be payable semiannually in arrears on June 15 and December 15 of each year, commencing on December 15, 2003. Distributions, including Additional Amounts (as defined below), if any, on the Preferred Securities on each Distribution Date will be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record dates, which shall be one Business Day prior to the relevant payment dates which payment dates correspond to the interest payment dates on the Debentures. If the interest payment period for the Debentures is extended by the Sponsor pursuant to the Subordinated Indenture (an "Extension Period"), no interest will be due and payable on the Debentures. Before the termination of any such Extension Period, the Sponsor may further defer payments of interest on the Debentures by further extending such Extension Period, provided, that such Extension Period, together with all such further extensions of such Extension Period, may not exceed ten consecutive semiannual periods or extend beyond the maturity date of the Debentures. As a consequence of an Extension Period, Distributions will also be deferred, provided that semiannual Distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at a rate of 5.75% per annum, compounded semiannually ("Additional Amounts") during any such Extension Period. The payment of such deferred interest, together with Additional Amounts, will be distributed to the Holders of the Trust Securities as received at the end of any Extension Period; provided, however, that the Trust may distribute such amounts earlier if the Sponsor prepaays interest accrued on the Debentures prior to the end of any Extension Period as permitted by the Subordinated Indenture.

Subject to certain conditions set forth in the Amended and Restated Declaration of Trust and the Subordinated Indenture, the Property Trustee may, at the direction of the Sponsor, at any time dissolve the Trust and, after the satisfaction of the liabilities to creditors of the Trust, cause the Debentures to be distributed to the holders of the Trust Securities in liquidation of the Trust or, simultaneously with any redemption of the Debentures, cause a Like Amount of the Trust Securities to be redeemed by the Trust.

The Preferred Securities shall be redeemable as provided in the Amended and Restated Declaration of Trust.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Preferred Security to:

\_\_\_\_\_  
\_\_\_\_\_  
(Insert assignee's social security or tax identification number)  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
(Insert address and zip code of assignee)

and irrevocably appoints

\_\_\_\_\_  
\_\_\_\_\_  
agent to transfer this Preferred Securities Certificate on the books of the Trust. The agent may substitute another to act for him or her.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Preferred Security Certificate)

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

I, John W. Rowe, certify that:

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

Date: July 30, 2003

/s/ John W. Rowe

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

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

I, Robert S. Shapard, certify that:

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

Date: July 30, 2003

/s/ Robert S. Shapard

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

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

I, Michael B. Bemis, certify that:

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

Date: July 30, 2003

/s/ Michael B. Bemis

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

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

I, Robert S. Shapard, certify that:

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

Date: July 30, 2003

/s/ Robert S. Shapard

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

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

I, Michael B. Bemis, certify that:

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

Date: July 30, 2003

/s/ Michael B. Bemis

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President, Exelon Energy Delivery  
(Principal Executive Officer)



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

I, Robert S. Shapard, certify that:

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

Date: July 30, 2003

/s/ Robert S. Shapard

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

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

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

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

Date: July 30, 2003

/s/ Oliver D. Kingsley Jr.

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Chief Executive Officer and President  
(Principal Executive Officer)

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

I, Robert S. Shapard, certify that:

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

Date: July 30, 2003

/s/ Robert S. Shapard

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

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Corporation for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: July 30, 2003

/s/ John W. Rowe

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John W. Rowe  
Chairman and Chief Executive Officer

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Corporation for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: July 30, 2003

/s/ Robert S. Shapard

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Robert S. Shapard  
Executive Vice President and  
Chief Financial Officer

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Commonwealth Edison Company for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: July 30, 2003

/s/ Michael B. Bemis

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Michael B. Bemis  
President  
Exelon Energy Delivery

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Commonwealth Edison Company for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: July 30, 2003

/s/ Robert S. Shapard

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Robert S. Shapard  
Executive Vice President and  
Chief Financial Officer  
Exelon Corporation

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of PECO Energy Company for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: July 30, 2003

/s/ Michael B. Bemis

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Michael B. Bemis  
President  
Exelon Energy Delivery



Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of PECO Energy Company for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: July 30, 2003

/s/ Robert S. Shapard

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Robert S. Shapard  
Executive Vice President and  
Chief Financial Officer  
Exelon Corporation

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Generation Company, LLC for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: July 30, 2003

/s/ Oliver D. Kingsley Jr.

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Oliver D. Kingsley Jr.  
Chief Executive Officer and  
President

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18

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United States Code  
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The undersigned officer hereby certifies, as to the Quarterly Report on Form 10-Q of Exelon Generation Company, LLC for the quarterly period ended June 30, 2003, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: July 30, 2003

/s/ Robert S. Shapard

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Robert S. Shapard  
Executive Vice President and  
Chief Financial Officer  
Exelon Corporation