

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

CURRENT REPORT

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

February 28, 2002  
(Date of earliest  
event reported)

Commission File Number	Name of Registrant; State of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street - 37th Floor P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-4321	23-2990190

Item 5. Other Events

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

Item 7. Financial Statements and Exhibits

(c) Exhibits.

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SIGNATURES

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

EXELON CORPORATION

/S/ Ruth Ann Gillis

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Ruth Ann Gillis  
Senior Vice President and  
Chief Financial Officer

February 28, 2002

CONSENT OF INDEPENDENT ACCOUNTANTS

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We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-57640), on Form S-4 (File No. 333-37082) and on Form S-8 (File Nos. 333-61390 and 333-49780) of Exelon Corporation and Subsidiary Companies of our report dated January 29, 2002, except for Note 25 for which the date is March 1, 2002, relating to the financial statements, which is included as an Exhibit in the Current Report on Form 8-K.

PricewaterhouseCoopers LLP

Chicago, Illinois  
March 7, 2002

Exelon Corporation and Subsidiary Companies  
Selected Financial Data

## Selected Financial Data

in millions, except for per share data	For the Years Ended December 31,				
	2001	2000 (a)	1999	1998	1997
<b>Statement of Income Data:</b>					
Operating Revenues	\$ 15,140	\$ 7,499	\$ 5,478	\$ 5,325	\$ 4,601
Operating Income	3,362	1,527	1,373	1,268	1,006
Income before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	1,416	566	607	520	320
Extraordinary Items (net of income taxes)	--	(4)	(37)	(20)	(1,834)
Cumulative Effect of Changes in Accounting Principles	12	24	--	--	--
Net Income (Loss)	1,428	586	570	500	(1,514)
<b>Earnings per Common Share (Diluted):</b>					
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	\$ 4.39	\$ 2.77	\$ 3.08	\$ 2.32	\$ 1.44
Extraordinary Items	--	(0.02)	(0.19)	(0.09)	(8.24)
Cumulative Effect of Changes in Accounting Principles	0.04	0.12	--	--	--
Net Income (Loss)	\$ 4.43	\$ 2.87	\$ 2.89	\$ 2.23	\$ (6.80)
Dividends per Common Share	\$ 1.82	\$ 0.91	\$ 1.00	\$ 1.00	\$ 1.80
Average Shares of Common Stock Outstanding - Diluted	322	204	197	224	223
at December 31,					
	2001	2000 (a)	1999	1998	1997
<b>Balance Sheet Data:</b>					
Current Assets	\$ 3,782	\$ 4,151	\$ 1,221	\$ 582	\$ 1,003
Property, Plant and Equipment, net	13,742	12,936	5,004	4,804	4,671
Deferred Debits and Other Assets	17,297	17,699	6,862	6,662	6,683
Total Assets	\$ 34,821	\$ 34,786	\$ 13,087	\$ 12,048	\$ 12,357
Current Liabilities	\$ 4,417	\$ 4,993	\$ 1,286	\$ 1,735	\$ 1,619
Long-Term Debt	12,876	12,958	5,969	2,920	3,853
Deferred Credits and Other Liabilities	8,685	8,990	3,738	3,756	3,576
Preferred Securities of Subsidiaries	613	630	321	579	582
Shareholders' Equity	8,230	7,215	1,773	3,058	2,727
Total Liabilities and Shareholders' Equity	\$ 34,821	\$ 34,786	\$ 13,087	\$ 12,048	\$ 12,357

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

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

## Market for Registrant's Common Equity and Related Stockholder Matters

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

	2001				2000			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	\$ 48.69	\$ 67.65	\$ 70.26	\$ 69.75	\$ 71.00	\$ 61.38	\$ 46.81	\$ 43.69
Low Price	\$ 39.65	\$ 38.75	\$ 62.10	\$ 53.60	\$ 53.88	\$ 40.50	\$ 36.56	\$ 33.00
Close	\$ 47.88	\$ 44.60	\$ 64.12	\$ 65.60	\$ 70.21	\$ 60.58	\$ 40.31	\$ 36.88
Dividends	\$ 0.43	\$ 0.42	\$ 0.42	\$ 0.55 (a)	\$ 0.16	\$ 0.25	\$ 0.25	\$ 0.25

(a) The first quarter dividend in 2001 was a pro rata dividend. Unicom and PECO Energy each paid their shareholders pro rata, per diem dividends from their last regular dividend dates through October 19, 2000. The first quarter covered the 119-day period from the date of the Merger, through the February 15, 2001 record date.

Exelon had 201,269 shareholders of record of common stock as of December 31, 2001.

## Securities Ratings for Exelon and its Subsidiary Companies

Securities	Moody's	Standard & Poors Corporation	Fitch
			Investors Service, Inc.
Exelon	Senior unsecured debt	Baa2	BBB+
	Commercial paper	P2	F2
ComEd	Senior secured debt	A3	A-
	Senior unsecured debt	Baa1	BBB+
	Commercial paper	P2	F2
PECO	Senior secured debt	A2	A
	Senior unsecured debt	A3	A-
	Commercial paper	P1	F1
Generation	Senior unsecured debt	Baa1	BBB+

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
Exelon Corporation and Subsidiary Companies

General

On October 20, 2000, Exelon Corporation (Exelon) became the parent corporation for each of PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd) as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended, among PECO, Unicom Corporation (Unicom) and Exelon (Merger). The Merger was accounted for using the purchase method of accounting. Exelon's results of operations for 1999 and 2000 consist of PECO's results of operations for 1999 and 2000 and Unicom's results of operations after October 20, 2000.

During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO. As part of the restructuring, the generation-related operations and assets and liabilities of ComEd were transferred to Exelon Generation Company, LLC (Generation). Also, as part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing PECO's Generation and Enterprises business segments, were transferred to Generation and Exelon Enterprises Company, LLC (Enterprises), respectively. Additionally, certain operations and assets and liabilities of ComEd and PECO were transferred to Exelon Business Services Company.

Exelon, through its subsidiaries, operates in three business segments:

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

See Note 21 of the Notes to Consolidated Financial Statements for further segment information.

Results of Operations

Year Ended December 31, 2001 Compared To Year Ended December 31, 2000

Net Income and Earnings Per Share

Exelon's net income increased \$842 million, or 144%, for 2001. Diluted earnings per share increased \$1.56 per share, or 54%. Income before extraordinary items and cumulative effect of changes in accounting principles increased \$850 million, or 150%, for 2001. Diluted earnings per share on the same basis increased \$1.62 per share, or 58%. Earnings per share increased less than net income as a result of an increase in the weighted average shares of common stock outstanding from the issuance of common stock in connection with the Merger, partially offset by the repurchase of common stock with the proceeds from PECO's May 2000 stranded cost recovery securitization.

Earnings Before Interest and Income Taxes

Exelon evaluates the performance of its business segments based on earnings before interest and income taxes (EBIT). In addition to components of operating income as shown on the consolidated statements of income, EBIT includes equity in earnings (losses) of unconsolidated affiliates, and other income and expense recorded in other, net, with the exception of investment income. Operating revenues, operating expenses, depreciation and amortization and other income and expenses for each business segment in the following analyses include intercompany transactions, which are eliminated in the consolidated Exelon financial statements.

The October 20, 2000 acquisition of Unicom, and the January 1, 2001 corporate restructuring, significantly impacted Exelon's results of operations. To provide a more meaningful analysis of results of operations, the EBIT analyses by business segment below identify the portion of the EBIT variance that is attributable to Unicom's results of operations and the portion of the variance that results from normal operations attributable to changes in components of the underlying operations of Exelon. The merger variance represents Unicom results for 2000 prior to the October 20, 2000 acquisition date as well as the effect of excluding Merger-related costs from Exelon's 2000 operations. The segment results also reflect the results as if the corporate restructuring occurred on January 1, 2000. The 2000 pro forma effects of the Merger and restructuring were developed using estimates of various items, including allocation of corporate overheads to business segments and intercompany transactions.

EBIT Contribution by Business Segment

(in millions)	2001	2000	Variance	Components of Variance	
				Merger Variance	Normal Operations
Energy Delivery	\$ 2,623	\$ 1,503	\$ 1,120	\$ 1,219	\$ (99)
Generation	962	440	522	22	500
Enterprises	(107)	(140)	33	(32)	65
Corporate	(22)	(328)	306	286	20
EBIT	\$ 3,456	\$ 1,475	\$ 1,981	\$ 1,495	\$ 486

Energy Delivery

(in millions)	2001	2000	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 10,171	\$ 4,511	\$ 5,660	\$ 5,168	\$ 492
Operating Expense and Other	6,467	2,711	3,756	3,242	514
Depreciation & Amortization	1,081	297	784	707	77
EBIT	\$ 2,623	\$ 1,503	\$ 1,120	\$ 1,219	\$ (99)

Energy Delivery's EBIT increased \$1,120 million in 2001, as compared to 2000. The Merger accounted for \$1,219 million of the variance offset by a decrease in EBIT from normal operations of \$99 million. The decrease in EBIT from normal operations reflects increased operating and maintenance expenses and regulatory asset amortization, partially offset by improved margins on sales due to favorable rate changes.

Energy Delivery's operating and maintenance expenses increased due to higher administrative and general costs as a result of increased allocation of costs previously recorded at Corporate, and \$18 million for employee severance costs associated with the Merger, partially offset by a decrease in customer costs. Higher purchased power costs for 2001 include charges for energy losses incurred during distribution from Generation (line loss charges), however line loss charges were not included in the 2000 pro forma purchased power costs.

Other expenses increased \$73 million due primarily to a \$113 million gain on a ComEd forward share repurchase arrangement recognized during the first quarter of 2000, partially offset by a \$38 million non-recurring loss on the sale of Cotter Corporation, a ComEd subsidiary, recognized during the first quarter of 2000.

Depreciation and amortization increased \$77 million reflecting increased regulatory asset amortization of \$34 million consistent with regulatory provisions, and increased depreciation expense of \$43 million primarily associated with capital additions.

Depreciation and amortization includes goodwill amortization of \$126 million in 2001, which will be discontinued in 2002 upon the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142).

Energy Delivery's electric sales statistics are as follows:

Deliveries (in megawatthours (MWh))	2001	2000(a)	Variance
Residential	36,459,606	35,307,675	1,151,931
Small Commercial & Industrial	37,183,693	36,506,400	677,293
Large Commercial & Industrial	36,824,787	39,663,127	(2,838,340)
Public Authorities & Electric Railroads	10,003,853	9,828,668	175,185
<b>Total Retail Deliveries</b>	<b>120,471,939</b>	<b>121,305,870</b>	<b>(833,931)</b>

The table above includes deliveries of 16 million MWhs in 2001 to customers who purchase energy from alternative suppliers.

Electric Revenue (in millions)	2001	2000(a)	Variance
Residential	\$ 3,571	\$ 3,483	\$ 88
Small Commercial & Industrial	2,852	2,680	172
Large Commercial & Industrial	1,933	1,796	137
Public Authorities & Electric Railroads	568	544	24
<b>Total Electric Retail Revenue</b>	<b>8,924</b>	<b>8,503</b>	<b>421</b>
Wholesale and Miscellaneous Revenue	593	643	(50)
<b>Total Electric Revenue</b>	<b>\$ 9,517</b>	<b>\$ 9,146</b>	<b>\$ 371</b>

(a) Includes the operations of ComEd as if the Merger occurred on January 1, 2000.

The changes in electric retail revenues for 2001, as compared to 2000, as if the Merger occurred on January 1, 2000, are attributable to the following:

(in millions)	Variance
Rate Changes	\$ 217
Customer Choice	131
Weather	98
Revenue Taxes	(88)
Other Effects	63
<b>Electric Retail Revenue</b>	<b>\$ 421</b>

- Rate Changes. The increase in revenues attributable to rate changes reflects the expiration of a 6% reduction in PECO's electric rates in effect for 2000 related to PECO's restructuring settlement, partially offset by a \$60 million PECO rate reduction in effect for 2001, and a 5% ComEd residential rate reduction, effective October 1, 2001, required by the Illinois restructuring legislation.
- Customer Choice. ComEd non-residential customers and all PECO customers have the choice to purchase energy from other suppliers. This choice generally does not impact kWh deliveries, but affects revenue collected from customers related to energy supplied by Energy Delivery. The favorable customer choice effect is attributable to increased revenues of \$276 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier, partially offset by a decrease in revenues of \$145 million from customers in Illinois electing to purchase energy from an alternative retail electric supplier (ARES) or the power purchase option (PPO), under which customers can purchase power from ComEd at a market-based rate. Exelon continues to collect delivery charges from these customers.
- Weather. The demand for electricity and gas services is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months is referred to as "favorable weather conditions", because these weather conditions result in increased sales of electricity and gas. Conversely, mild weather reduces demand. Although weather was moderate in 2001, the weather impact was favorable compared to the prior year as a result of warmer summer weather offset in part by warmer winter weather in 2001, primarily in the ComEd service territory.



- - Revenue taxes. The change in revenue taxes represents a change in presentation of certain revenue taxes from operating revenue and tax expense to collections recorded as liabilities resulting from Illinois legislation. This change in presentation does not affect income.
- - Other Effects. A strong housing construction market in Chicago has contributed to residential and small commercial and industrial customer volume growth, partially offset by the unfavorable impact of a slower economy on large commercial and industrial customers.

The reduction in Wholesale and Miscellaneous revenues in 2001, as compared to 2000, reflects lower off-system sales due to the expiration of wholesale contracts that were offered by ComEd from June 2000 to May 2001 to support the open access program in Illinois, partially offset by increased transmission service revenue and the reversal of a \$15 million reserve for revenue refunds to ComEd's municipal customers as a result of a favorable Federal Energy Regulatory Commission (FERC) ruling.

Energy Delivery's gas sales statistics are as follows:

	2001	2000	Variance
Deliveries in million cubic feet (mmcf)	81,528	91,686	(10,158)
Revenue (in millions)	\$654	\$532	\$122

The changes in gas revenue for 2001, as compared to 2000, are as follows:

(in millions)	Variance
Price	\$ 174
Weather	(38)
Volume	(14)
Gas Revenue	\$ 122

- - Price. The favorable variance in price is attributable to an adjustment of the purchased gas cost recovery by the Pennsylvania Public Utility Commission (PUC) effective in December 2000. The average price per million cubic feet for all customers for 2001 was 39% higher than 2000. PECO's gas rates are subject to periodic adjustments by the PUC designed to recover or refund the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.
- - Weather. The unfavorable weather impact is attributable to warmer temperatures in the non-summer months of 2001 than in 2000 in the PECO service territory. Heating degree days decreased 12% in 2001 compared to 2000.
- - Volume. Exclusive of weather impacts, lower delivery volume affected revenue by \$14 million compared to 2000. Total mmcf sales to retail customers decreased 11% compared to 2000, primarily as a result of slower economic conditions in 2001 offset by customer growth.

Generation

(in millions)	2001	2000	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 7,048	\$ 3,316	\$ 3,732	\$ 2,772	\$960
Operating Expense and Other	5,804	2,750	3,054	2,667	387
Depreciation & Amortization	282	126	156	83	73
EBIT	\$ 962	\$ 440	\$ 522	\$ 22	\$500

Generation's EBIT increased \$522 million for 2001 compared to 2000. The Merger accounted for \$22 million of the variance. The remaining \$500 million increase resulted primarily from higher margins on market and affiliate wholesale energy sales, coupled with decreased operating costs at the nuclear plants, partially offset by additional depreciation and amortization. During the first five months of 2001, Generation benefited from increases in wholesale market prices, particularly in the Pennsylvania-New Jersey-Maryland control area and Mid-America Interconnected Network regions. The increase in wholesale market prices was primarily driven by significant increases in fossil fuel prices. The large concentration of nuclear generation in the Generation portfolio allowed Exelon to capture the higher prices in the wholesale market for sales to non-affiliates with minimal increase in fuel prices. Generation revenues for 2001 include charges to affiliates for line losses. Line loss charges were not included in pro forma 2000 revenue. Generation also benefited from higher nuclear plant output due to increased capacity factors during 2001. Energy marketing activities positively impacted 2001 results. Mark-to-market gains were \$16 million and \$14 million on non-trading and trading energy contracts, respectively, offset by realized trading losses of \$6 million. Lower operating costs are attributable to reductions in the number of employees and fewer nuclear outages in 2001 than in 2000, which offset the effect of increases in reserves related to litigation of \$30 million. In addition, Generation's EBIT benefited from an increase in equity in earnings of AmerGen and Sithe of \$90 million in 2001 compared to the prior year period as a result of acquisitions in 2000. The increase in depreciation and amortization expense primarily reflects an increase in decommissioning expense of \$140 million reflecting the discontinuance of regulatory accounting practices for certain nuclear generating stations, partially offset by a \$90 million reduction in depreciation and decommissioning expense attributable to the extension of estimated service lives of Generation's generating plants.

For 2001, Generation's sales were 201,879 GWhs, approximately 60% of which were to affiliates. Supply sources were as follows:

Nuclear units	54%
Purchases	37%
Fossil and hydro units	3%
Generation investments	6%
Total	100%

Generation's nuclear fleet, including AmerGen, performed at a weighted average capacity factor of 94.4% for 2001 compared to 93.8% in 2000. Generation's nuclear fleet's production costs, including AmerGen, were \$12.79 per MWh for 2001, compared to \$14.65 per MWh for 2000.

#### Enterprises

(in millions)	2001	2000	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 2,292	\$ 1,395	\$ 897	\$ 467	\$ 430
Operating Expense and Other	2,330	1,500	830	491	339
Depreciation & Amortization	69	35	34	8	26
EBIT	\$ (107)	\$ (140)	\$ 33	\$ (32)	\$ 65

Enterprises' EBIT increased \$33 million for 2001 compared to 2000. Normal operations contributed \$65 million of the variance, which was partially offset by a \$32 million reduction attributable to the Merger. The increase in EBIT from normal operations primarily reflects \$27 million of net realized gains on investments, \$23 million from lower net losses in communications joint ventures, \$21 million of reduced losses on the sale of assets, and \$15 million primarily from improved margins and reduced operating expenses of retail energy sales in Pennsylvania. These increases were partially offset by \$13 million of net writedowns on investments.

Enterprises' revenues increased \$897 million for 2001 compared to 2000. Normal operations contributed \$430 million and the Merger added \$467 million. Operating revenues attributable to normal operations increased \$574 million as a result of acquisitions by its services businesses. Additionally, revenues increased by \$26 million as a result of increased operations at Exelon Services. These increases were partially offset by \$166 million lower revenues primarily attributable to reduced operations of retail energy sales in Pennsylvania.

Enterprises' operating and other expenses increased \$830 million for 2001 compared to 2000. Normal operations contributed \$339 million and the Merger added \$491 million. Operating expenses from normal operations included \$554 million as a result of acquisitions made by its services businesses. Additionally, operating and other expenses increased by \$32 million from increased operations at Exelon Services and \$13 million due to net writedowns on investments. These increases were partially offset by \$193 million from lower expense primarily attributable to reduced operations of retail energy sales in Pennsylvania, \$27 million from net realized gains on investments, \$23 million from lower net losses in communications joint ventures, and \$21 million of reduced losses on the sale of assets.

Enterprises' depreciation and amortization expense increased primarily as a result of goodwill amortization related to acquisitions made by its services businesses.

Depreciation and amortization includes goodwill amortization of \$24 million in 2001, which will be discontinued in 2002 upon the adoption of SFAS No. 142.

Enterprises' investments are weighted towards investments in the communication industry, which continues to be adversely impacted by the significant downturn in the communications market.

#### Other Components of Net Income

**Interest Charges** Interest charges consist of interest expense and distributions on preferred securities of subsidiaries. Interest charges increased \$524 million, or 83%, for 2001. The increase was primarily attributable to \$438 million from the effects of the Merger, \$70 million related to borrowings by Exelon to finance the Merger cash consideration and the December 2000 investment in Sithe as well as additional interest of \$16 million as a result of the issuance of transition bonds in May 2000 to securitize a portion of PECO's stranded cost recovery.

**Investment Income** Investment income is recorded in Other, Net on the Consolidated Statements of Income, but is excluded from EBIT. Investment income decreased by \$17 million due to net realized losses of \$60 million on the nuclear decommissioning trust funds for the nuclear stations formerly owned by ComEd, offset by increased income of \$43 million, primarily reflecting a full year of investment income from the former Unicom companies, as well as money market interest and interest on the loan to Sithe recorded at Generation in 2001.

**Income Taxes** Income taxes increased by \$590 million in 2001 as compared to 2000, \$541 million of which is due to higher pretax income and \$49 million due to a higher effective income tax rate. The increase in income taxes reflects additional pretax income of \$1,440 million, of which \$1,044 million is attributable to the Merger. The effective income tax rate was 39.7% for 2001 as compared to 37.6% for 2000. The increase in the effective income tax rate was primarily attributable to goodwill amortization associated with the Merger which is not deductible for tax purposes, a higher effective state income tax rate due to operations in Illinois subsequent to the Merger, reduced impact of investment tax credit amortization and a favorable annual tax return adjustment recorded in 2001.

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

**Cumulative Effect of Changes in Accounting Principles** On January 1, 2001, Exelon adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended, resulting in a benefit of \$20 million (\$12 million, net of income taxes). On January 1, 2000, Exelon recorded a benefit of \$40 million (\$24 million, net of income taxes) representing the cumulative effect of a change in accounting method for nuclear outage costs by PECO in conjunction with the synchronization of accounting policies in connection with the Merger.

Net Income and Earnings Per Share

Exelon's net income increased \$16 million, or 3% in 2000. Diluted earnings per share were consistent with the prior year period. Income before extraordinary items and cumulative effect of a change in accounting principle, decreased \$41 million, or 7% in 2000. Diluted earnings per share on the same basis were consistent with the prior period. Earnings per share increased less than net income because of an increase in the weighted average shares of common stock outstanding as a result of the issuance of common stock in connection with the Merger, partially offset by the repurchase of common stock with the proceeds from PECO's March 1999 and May 2000 stranded cost recovery securitizations.

Earnings Before Interest and Income Taxes To provide a more meaningful analysis of results of operations, the EBIT analyses by business segment below identify the portion of the EBIT variance that is attributable to Unicom's results of operations and the portion of the variance that results from normal operations attributable to changes in components of the underlying operations of Exelon. The merger variance represents the former Unicom companies' results for the period after the Merger on October 20, 2000 as well as the effect of excluding Merger-related costs from Exelon's 2000 operations. The 2000 and 1999 results also reflect the corporate restructuring as if it had occurred on January 1, 1999. The 2000 pro forma effects of the Merger and restructuring were developed using estimates of various items, including allocation of corporate overheads to business segments and intercompany transactions.

EBIT Contribution by Business Segment

(in millions)	2000	1999	Variance	Components of Variance	
				Merger Variance	Normal Operations
Energy Delivery	\$ 1,503	\$ 1,372	\$ 131	\$ 297	\$ (166)
Generation	440	379	61	34	27
Enterprises	(140)	(212)	72	(4)	76
Corporate	(328)	(194)	(134)	(272)	138
Total	\$ 1,475	\$ 1,345	\$ 130	\$ 55	\$ 75

Energy Delivery

(in millions)	2000	1999	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 4,511	\$ 3,265	\$ 1,246	\$ 1,138	\$ 108
Operating Expense and Other	2,711	1,785	926	739	187
Depreciation & Amortization	297	108	189	102	87
EBIT	\$ 1,503	\$ 1,372	\$ 131	\$ 297	\$ (166)

Energy Delivery's EBIT increased \$131 million in 2000, as compared to 1999. The Merger accounted for \$297 million of the variance offset by a decrease in EBIT from normal operations of \$166 million. The decrease in EBIT from normal operations reflects increased operating and maintenance expenses and regulatory asset amortization which more than offset the increase in revenue. The increase in revenue from normal operations is attributable to improved margins on sales due to customers in Pennsylvania selecting PECO as their electric generation supplier and rate adjustments partially offset by lower summer volume.

Energy Delivery's operating expenses and other increased due to higher administrative and general costs as a result of increased allocation of costs previously recorded at Corporate, partially offset by a nonrecurring capital stock credit related to a 1999 adjustment associated with the impact of PECO's 1997 restructuring charge.

Depreciation and amortization increased \$87 million primarily reflecting increased regulatory asset amortization consistent with regulatory orders.

Generation

(in millions)	2000	1999	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 3,316	\$ 2,411	\$ 905	\$ 590	\$ 315
Operating Expense and Other	2,750	1,907	843	528	315
Depreciation & Amortization	126	125	1	28	(27)
EBIT	\$ 440	\$ 379	\$ 61	\$ 34	\$ 27

Generation's EBIT increased \$61 million for 2000 compared to 1999. The Merger accounted for \$34 million of the variance. The remaining \$27 million increase resulted primarily from higher margins on market and affiliate wholesale energy sales and from the abandonment of two information systems implementations in 1999 and a \$15 million write-off in 1999 of the investment in a cogeneration facility in connection with the settlement of litigation. In addition, Generation's EBIT also benefited from an increase in equity in earnings of AmerGen of \$4 million in 2000 compared to the prior year period. Effective with the acquisition of Clinton Nuclear Power Station (Clinton) by AmerGen, the management agreement for Clinton was terminated, resulting in lower revenues of \$99 million and lower operation and maintenance expense of \$70 million.

Generation's nuclear fleet, including AmerGen, performed at a weighted average capacity factor of 93.8% for 2000. Generation's nuclear fleet production costs for 2000 were \$14.65 per MWh.

Enterprises

(in millions)	2000	1999	Variance	Components of Variance	
				Merger Variance	Normal Operations
Operating Revenue	\$ 1,395	\$ 644	\$ 751	\$ 277	\$ 474
Operating Expense and Other	1,500	852	648	278	370
Depreciation & Amortization	35	4	31	3	28
EBIT	\$ (140)	\$ (212)	\$ 72	\$ (4)	\$ 76

Enterprises' EBIT increased \$72 million for 2000 compared to 1999. Normal operations contributed \$76 million of the variance, which was partially offset by a \$4 million reduction attributable to the Merger. The increase in EBIT from normal operations primarily reflects a reduction in losses from retail energy sales partially offset by writedowns on communications investments and losses in communications joint ventures.

Enterprises' revenues increased \$751 million for 2000 compared to 1999. Normal operations contributed \$474 million and the Merger added \$277 million. Operating revenues attributable to normal operations increased \$530 million as a result of thirteen infrastructure services company acquisitions in 2000 and 1999, partially offset by reduced retail energy sales.

Enterprises' operating and other expenses increased \$648 million for 2000 compared to 1999. Normal operations contributed \$370 million and the Merger added \$278 million. Increased operating expenses from normal operations primarily related to the thirteen infrastructure services company acquisitions and to writedowns on communication investments and losses in communications joint ventures, partially offset by reduced retail energy sales.

Enterprises' depreciation and amortization expense increased primarily as a result of goodwill amortization related to its infrastructure services businesses acquisitions.

Other Components of Net Income

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

Investment Income Investment income is recorded in Other, Net on the Consolidated Statements of Income, but is excluded from EBIT. Investment income increased by \$12 million to \$64 million in 2000, primarily reflecting the effects of the Merger.

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

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

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

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

#### Liquidity and Capital Resources

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

#### Cash Flows from Operating Activities

Cash flows provided by operations for 2001 were \$3.6 billion, approximately two-thirds of which were provided by Energy Delivery and one-third of which was provided by Generation. Enterprises' cash flows from operations were immaterial to Exelon in 2001. 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. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs. Although the amounts may vary from period to period as a result of the uncertainties inherent in business, Exelon expects that Energy Delivery and Generation will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

#### Cash Flows from Investing Activities

Cash flows used in investing activities for 2001 were \$2.4 billion, primarily for capital expenditures of \$2.0 billion. Capital expenditures by business segment for 2001 and projected amounts for 2002 are as follows:

(in millions)	2001	2002
Energy Delivery	\$ 1,133	\$ 1,060
Generation	803	1,089
Enterprises	70	114
Corporate and Other	35	27
Subtotal	\$ 2,041	\$ 2,290
TXU Acquisition	--	443
<b>Total Capital Expenditures and TXU Acquisition</b>	<b>\$ 2,041</b>	<b>\$ 2,733</b>

Energy Delivery's estimated capital expenditures for 2002 reflect the continuation of efforts to further improve the reliability of its distribution system in the Chicago region. Approximately 36% of the budgeted 2002 expenditures are for growth and the remainder for additions to or upgrades of existing facilities. Exelon anticipates that Energy Delivery will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon.

Approximately 75% of Generation's estimated capital expenditures for 2002 are for additions to and upgrades of existing facilities (including nuclear refueling outages), nuclear fuel and increases in capacity at existing plants. Capital expenditures are projected to increase in 2002 as compared to 2001 due to higher nuclear fuel expenditures, growth and an increase in the number of planned refueling outages, during which significant maintenance work is performed. Eleven nuclear refueling outages, including AmerGen, are planned for 2002, compared to six during 2001. Total capital expenditures for nuclear refueling outages are expected to increase in 2002 over 2001 by \$24 million. Exelon has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2002. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, Generation borrowings or capital contributions from Exelon. In addition to the 2002 capital expenditures of \$1.1 billion, Generation expects to close the purchase of two natural-gas and oil-fired plants from TXU Corp. (TXU) in the first quarter of 2002. The \$443 million purchase is expected to be funded with available cash and commercial paper.

Enterprises' capital expenditures were \$70 million in 2001. Enterprises' estimated capital expenditures for 2002 are approximately \$114 million, primarily for additions to or upgrades of existing facilities. All of Enterprises' investments are expected to be funded by capital contributions or borrowings from Exelon.

Exelon's total estimated capital expenditures in 2002 are approximately \$2.7 billion including the acquisition of the TXU generating stations. Exelon's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

#### Cash Flows from Financing Activities

Cash flows used in financing activities were \$1.3 billion in 2001 primarily attributable to debt service and payments of dividends on common stock. Debt financing activities during 2001 were as follows:

- - Exelon Corporation - Retired a \$1.2 billion term loan with proceeds from \$500 million and \$700 million senior unsecured note issuances at Exelon and Generation, respectively.
- - Energy Delivery - Refinanced \$805 million in PECO transition bonds, retired \$340 million of ComEd transitional trust notes and early retired \$196 million in First Mortgage Bonds with available cash.
- - Generation - Issued \$121 million of pollution control bonds to refinance an equivalent amount originally issued by PECO and issued \$700 million of senior unsecured notes.

The 2001 common stock dividend payments of \$583 million cover the period from October 20, 2000, the date of the Merger, through November 15, 2001. On January 29, 2002, the Board of Directors of Exelon declared a quarterly dividend of \$0.44 per share of Exelon's common stock. This increase of \$0.07 per share annually, will result in an annual dividend rate of \$1.76 per share. The new dividend rate reflects Exelon's vertically integrated business portfolio and its focus on total return to shareholders. The new dividend rate represents about a 50% payout of the expected 2002 earnings per share from Exelon's regulated electricity delivery businesses. Exelon intends to grow the dividend to about a 60% payout of earnings from regulated operations based on cash flow and earnings growth prospects for Energy Delivery. The payment of future dividends is subject to approval and declaration by the Board of Directors each quarter.

#### Credit Issues

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by Exelon, ComEd and PECO. Exelon, along with ComEd, PECO and Generation, entered into a \$1.5 billion unsecured revolving credit facility with a group of banks. Generation currently cannot borrow under the credit agreement until it has delivered audited financial statements to the banks, which is expected to occur in the first quarter of 2002. This credit facility is used principally to support the commercial paper program of Exelon, ComEd and PECO.

At December 31, 2001, Exelon had outstanding \$360 million of notes payable consisting principally of commercial paper. For 2001, the average interest rate on notes payable was approximately 2.63%. Certain of the credit agreements to which Exelon, ComEd, PECO and Generation are parties require each of them to maintain a debt to total capitalization ratio of 65% or less, excluding securitization debt (and for PECO, excluding the receivable from parent recorded in PECO's shareholders' equity). At December 31, 2001, the debt to total capitalization ratios on that basis for Exelon, ComEd, PECO and Generation were 47%, 45%, 38% and 26%, respectively.

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

Exelon has obtained an order from the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA) authorizing financing transactions, including the issuance of common stock, preferred securities, long-term debt and short-term debt in an aggregate amount not to exceed \$4 billion. As of December 31, 2001, \$3.0 billion of financing authority is available under the SEC order. Exelon requested, and the SEC reserved jurisdiction over, an additional \$4 billion in financing authorization. Exelon agreed to limit its short-term debt outstanding to \$3 billion of the \$4 billion total financing authority. Exelon has asked the SEC to eliminate the short-term debt restriction. The SEC order also authorized Exelon to issue guarantees of up to \$4.5 billion outstanding at any one time. At December 31, 2001, Exelon had provided \$1.4 billion of guarantees. See Contractual Obligations and Commercial Commitments in this section. The SEC order requires Exelon to maintain a ratio of common equity to total capitalization (including securitization debt) on and after June 30, 2002 of not less than 30%. At December 31, 2001, Exelon's common equity to total capitalization was 35%.

Under PUHCA and the Federal Power Act, Exelon, ComEd, PECO and Generation can pay dividends only from retained or current earnings. However, the SEC order granted permission to Exelon and ComEd to pay up to \$500 million in dividends out of additional paid-in capital, provided that Exelon agreed not to pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization. At December 31, 2001, Exelon had retained earnings of \$1.2 billion, which includes ComEd retained earnings of \$257 million, PECO retained earnings of \$270 million and Generation retained earnings of \$471 million. Exelon is also limited by order of the SEC under PUHCA to an aggregate investment of \$4 billion in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs). Exelon requested, and the SEC reserved jurisdiction over, an additional \$1.5 billion in EWGs and FUCOs.

During 2001, Exelon loaned Sithe \$150 million, which was repaid by Sithe in December of 2001 from the proceeds of a bank borrowing. In connection with that bank borrowing, Exelon provided the lenders with a support letter confirming its investment in Sithe and Exelon's agreement to maintain a positive net worth of Sithe. Sithe's net worth is expected to remain positive for the foreseeable future and accordingly this agreement is not reflected in the following Contractual



Obligations and Commercial Commitments discussion. This agreement does not guarantee any debt or obligation of Sithe. During 2001, Sithe paid Exelon \$2 million in interest on the loan.

Contractual Obligations and Commercial Commitments

Exelon's contractual obligations as of December 31, 2001 representing cash obligations that are considered to be firm commitments are as follows:

(in millions)	Total	Payment due within			Due after 5 Years
		1 Year	2-3 Years	4-5 Years	
Long-Term Debt	\$ 14,411	\$ 1,406	\$ 2,287	\$ 2,576	\$ 8,142
Short-Term Debt	360	360	--	--	--
Operating Leases	990	82	152	128	628
Purchase Obligations	12,192	1,695	3,173	1,346	5,978
Spent Nuclear Fuel Obligation	843	--	--	--	843
Acquisition of TXU Generating Stations	443	443	--	--	--
<b>Total Contractual Obligations</b>	<b>\$ 29,239</b>	<b>\$ 3,986</b>	<b>\$ 5,612</b>	<b>\$ 4,050</b>	<b>\$15,591</b>

For additional information about

- long-term debt see Note 14 of the Notes to Consolidated Financial Statements
- short-term debt see Note 13 of the Notes to Consolidated Financial Statements
- operating leases see Note 20 of the Notes to Consolidated Financial Statements
- purchase obligations see Note 20 of the Notes to Consolidated Financial Statements
- the TXU acquisition see Note 20 of the Notes to Consolidated Financial Statements
- the spent nuclear fuel obligation see Note 12 of the Notes to Consolidated Financial Statements

Exelon has an obligation to decommission its nuclear power plants. Exelon's current estimate of decommissioning costs for its owned nuclear plants is \$7.2 billion in current year (2002) dollars. Nuclear decommissioning activity occurs primarily after the plants retirement and is currently estimated to begin in 2045. At December 31, 2001 the decommissioning liability, which is recorded over the life of the plant, recorded in Accumulated Depreciation and Deferred Credits and Other Liabilities on Exelon's Consolidated Balance Sheets was \$2.7 billion and \$1.3 billion, respectively. In order to fund future decommissioning costs, Exelon held \$3.2 billion of investments in trust funds which are included as Investments in Exelon's Consolidated Balance Sheets and include net unrealized and realized gains.

Exelon's commercial commitments as of December 31, 2001 representing commitments triggered by future events, including obligations to make payment on behalf of other parties as well as financing arrangements to secure obligations of Exelon, are as follows:

(in millions)	Total	Expiration within			After 5 Years
		1 Year	2-3 Years	4-5 Years	
Available Lines of Credit (a)	\$ 1,500	\$ 1,500	\$ --	\$ --	\$ --
Letters of Credit (non-debt) (b)	38	37	1	--	--
Letters of Credit (Long-Term Debt) (c)	427	122	305	--	--
Insured Long-Term Debt (d)	154	--	154	--	--
Guarantees (e)	1,410	218	310	--	882
<b>Total Commercial Commitments</b>	<b>\$ 3,529</b>	<b>\$ 1,877</b>	<b>\$ 770</b>	<b>\$ --</b>	<b>\$ 882</b>

(a) Lines of Credit - Exelon, along with ComEd, PECO, and Generation, maintain a \$1.5 billion 364-day credit facility to support commercial paper issuances. At December 31, 2001, there are no borrowings against the credit facility. Additionally, at December 31, 2001, there was \$360 million of commercial paper outstanding.

(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) Insured Long-Term Debt - Borrowings that have been credit-enhanced through the purchase of insurance coverage equal to the amount of principal outstanding plus interest.

(e) Guarantees - Provide support for lines of credit, performance contracts, surety bonds, energy marketing contracts, nuclear insurance, and leases as required by third parties.

#### Off Balance Sheet Obligations

Generation owns 49.9% of the outstanding common stock of Sithe and has an option, beginning on December 18, 2002, to purchase the remaining common stock outstanding (Remaining Interest) in Sithe. The purchase option expires on December 18, 2005. In addition, the Sithe stockholders who own in the aggregate the Remaining Interest have the right to require Generation to purchase the Remaining Interest (Put Rights) during the same period in which Generation can exercise its purchase option. At the end of this exercise period, if Generation has not exercised its purchase option and the other Sithe stockholders have not exercised their Put Rights, Generation will have an additional one-time option to purchase shares from the other stockholders in Sithe to bring Generation's ownership in Sithe from the current 49.9% to 50.1% of Sithe's total outstanding common stock.

If Generation exercises its option to acquire the Remaining Interest, or if all the other Sithe stockholders exercise their Put Rights, the purchase price for 70% of the Remaining Interest will be set at fair market value subject to a floor of \$430 million and a ceiling of \$650 million. The balance of the Remaining Interest will be valued at fair market value without being subject to floor or ceiling prices. In either instance, interest shall accrue from the beginning of the exercise period.

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

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

Generation and British Energy, Generation's joint venture partner in AmerGen, have each agreed to provide up to \$100 million to AmerGen at any time for operating expenses.

#### Other Factors

In 2001, Exelon adopted a cash balance pension plan. All management and electing union employees who joined Exelon or one of its participating subsidiaries during 2001 became participants in the plan. Management employees who were active participants in Exelon's previous qualified defined benefit plans at December 31, 2000 and are employed by Exelon on January 1, 2002 will be given a choice to convert to the cash balance plan. Participants in the cash balance plan, unlike participants in the other defined benefit plans, may request a lump-sum cash payment upon employee termination which may result in increased cash requirements from pension plan assets. Exelon may be required to increase future funding to the pension plan as a result of these increased cash requirements.

Due to the performance of the United States debt and equity markets in 2001, the value of assets held in trusts to satisfy the obligations of pension and postretirement benefit plans and the eventual nuclear generating station decommissioning has decreased. Also, as a result of the Merger and corporate restructuring, there was a larger than average number of employees taking advantage of retirement benefits in 2001. These factors may also result in additional future funding requirements of the pension and postretirement benefit plans. Contributions to the nuclear decommissioning trust funds of \$112 million offset net losses of \$109 million, resulting in a 2% increase in the decommissioning trust funds balance at December 31, 2001 compared to December 31, 2000. Exelon believes that the amounts being recovered from customers through electric rates along with the earnings on the trust funds will be sufficient to fund its decommissioning obligations. For additional information about nuclear decommissioning see Notes 1 and 12 of the Notes to Consolidated Financial Statements.

## Quantitative and Qualitative Disclosures About Market Risk

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

### Commodity Price Risk

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

Marketing (non-trading) activities To the extent Exelon's generation supply, (either owned or contracted) is in excess of its obligations to customers, including ComEd and PECO's retail load, that available electricity is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Exelon enters into derivative contracts, including forwards, futures, swaps, and options with approved counterparties to hedge Exelon's anticipated exposures. Market price risk exposure is the risk of a change in the value of unhedged positions. Exelon expects to maintain a minimum 80% hedge ratio in 2002 for its energy marketing portfolio. This hedge ratio represents the percentage of Exelon's forecasted aggregate annual generation supply that is committed to firm sales, including sales to Energy Delivery's retail load. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand and volatility. Absent any opportunistic efforts to mitigate market price exposure, the estimated market price exposure for the non-trading portfolio associated with a ten percent reduction in the average around-the-clock market price of electricity is an approximate \$100 million decrease in net income, or approximately \$0.30 per share. This sensitivity, which is consistent with prior guidance, assumes an 80% hedge ratio, and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Exelon expects to actively manage its portfolio to mitigate the market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, the price changes, as well as future changes in Exelon's portfolio.

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

Exelon's energy contracts are accounted for under SFAS No. 133. Most non-trading contracts qualify for a normal purchases and normal sales exception. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in Other Comprehensive Income, and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts are recognized in earnings on a current basis. Outlined below is a summary of the changes in fair value for those contracts included as assets and liabilities in the Consolidated Balance Sheet for the year ended December 31, 2001:

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

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

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

The majority of Exelon's contracts are non-exchange traded contracts valued using prices provided by external sources, which primarily represent price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that Exelon believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, by region and by product. The remainder of the assets represent contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model and other valuation techniques. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2001 and may change as a result of future changes in these factors. The maturities of the net energy trading and non-trading assets and sources of fair value as of December 31, 2001 are as follows:

(in millions)	Maturities within			Total Fair Value
	1 Year	2-3 Years	4-5 Years	
<b>Non-trading:</b>				
Actively quoted prices	\$ --	\$ --	\$ --	\$ --
Prices provided by other external sources	36	50	--	86
Prices based on model or other valuation methods	(4)	2	(6)	(8)
<b>Total</b>	<b>\$ 32</b>	<b>\$ 52</b>	<b>\$ (6)</b>	<b>\$ 78</b>
<b>Trading:</b>				
Actively quoted prices	\$ --	\$ --	\$ --	\$ --
Prices provided by other external sources	10	4	--	14
Prices based on model or other valuation methods	--	--	--	--
<b>Total</b>	<b>\$ 10</b>	<b>\$ 4</b>	<b>\$ --</b>	<b>\$ 14</b>

Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors, and credit exposure. However, it is possible that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities, and such variations could be material.

#### Credit Risk

ComEd and PECO are each obligated to provide service to all electric customers within their respective franchised territories. As a result, ComEd and PECO each have a broad customer base. For the year ended December 31, 2001, ComEd's ten largest customers represented approximately 3% of its retail electric revenues and PECO's ten largest customers represented approximately 10% of its retail electric revenues. Credit risk for Energy Delivery is managed by each company's credit and collection policies, which are consistent with state regulatory requirements.

Generation has credit risk associated with counterparty performance which includes but is not limited to the risk of financial default or slow payment. Counterparty credit risk is managed through established policies, including establishing counterparty credit limits, and in some cases, requiring deposits 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 master netting agreements with the majority of its large counterparties, which reduce exposure to risk by providing for the offset of amounts payable to the counterparty against the counterparty receivables.

Generation participates in the five established, real-time energy markets, which are administered by independent system operators (ISOs): Pennsylvania, New Jersey, Maryland, LLC (PJM), which is in the Mid-Atlantic Area Council region; New England and New York, which are both in the Northeast Power Coordinating Council region; California, which is in the Western Systems Coordinating Council region and Texas, which is administered by the Electric Reliability Council of Texas. Approximately one-half of Generation's transactions, on a megawatthour basis, were made in these markets. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets which are operated by the ISOs. In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by the ISOs, the ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the ISO's may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty, could result in a material adverse impact on Exelon's financial condition, results of operations or net cash flows.

Exelon's balance sheet includes a \$427 million net investment in a direct financing lease as of December 31, 2001. The investment in direct financing leases represents future minimum lease payments due at the end of the thirty year life of the lease of \$1,492 million, less unearned income of \$1,065 million. The future minimum lease payments are supported by collateral and credit enhancement measures including letters of credit, surety bonds and credit swaps issued by high credit quality financial institutions.

#### Interest Rate Risk

Exelon uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate based upon market conditions. Exelon 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. As of December 31, 2001, a hypothetical 10% increase in the interest rates associated with variable rate debt would result in an \$1 million decrease in pre-tax earnings for 2002.

Exelon has entered into interest rate swaps to manage interest rate exposure associated with the floating rate series of transition bonds issued to securitize PECO's stranded cost recovery and with a \$235 million fixed-rate obligation of ComEd. In December 2001, Exelon entered into forward-starting interest rate swaps, with an aggregate notional amount of \$250 million in anticipation of the issuance of debt at ComEd in the first quarter of 2002. At December 31, 2001, these interest rate swaps had an aggregate fair market value exposure of \$21 million based on the present value difference between the contract and market rates at December 31, 2001.

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 December 31, 2001 is estimated to be \$34 million. If these derivative instruments had been terminated at December 31, 2001, this estimated fair value represents the amount that would be paid by Exelon to the counterparties.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2001 is estimated to be \$11 million. If these derivative instruments had been terminated at December 31, 2001, this estimated fair value represents the amount to be paid by Exelon to the counterparties.

#### Equity Price Risk

Exelon maintains trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of decommissioning its nuclear plants. As of December 31, 2001, these funds are reflected at fair value on Exelon's Consolidated Balance Sheets. The mix of securities is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the trusts are exposed to price fluctuations in equity markets, and the value of fixed rate, fixed income securities are exposed to changes in interest rates. Exelon actively monitors the investment performance and periodically reviews asset allocation in accordance with Exelon's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$204 million reduction in the fair value of the trust assets.

#### Critical Accounting Policies

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

##### Accounting for Derivative Instruments

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

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

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

Energy contracts that are considered derivatives may be eligible for designation as hedges. If a contract is designated as a hedge, the change in its market value is generally deferred as a component of other comprehensive income until the transaction it is hedging is completed. Conversely, the change in the market value of derivatives not designated as hedges is recorded in current period earnings. To qualify as a cash flow hedge, the fair value changes in the derivative must be expected to offset 80%-120% of the changes in fair value or cash flows of the hedged item. The effectiveness of an energy contract designated as a hedge is determined by internal models that measure the statistical correlation between the derivative and the associated hedged item.

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

Interest Rate Derivatives Exelon utilizes derivatives to manage its exposure to fluctuation in interest rates related to outstanding variable rate debt instruments and planned future debt issuances as well as exposure to changes in the fair value of outstanding debt that is planned for early retirement. Hedge accounting is used for all interest rate derivatives to date based on the probability of the transaction and the expected highly effective nature of the hedging relationship between the interest rate swap contract and the interest payment or changes in fair value of the hedged debt. Dealer quotes are available for all of Exelon's interest rate swap agreement derivatives.

#### Regulatory Assets and Liabilities

Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities represent previous collections from customers to fund costs which have not yet been incurred.

Both ComEd and PECO are currently subject to rate freezes that limit the opportunity to recover increased costs and the costs of new investment in facilities through rates during the rate freeze period. Current rates include the recovery of Exelon's existing regulatory assets. Exelon continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory environment changes, recent rate orders to other regulated entities in the same jurisdiction, and the status of any pending or potential deregulation legislation. If future recovery of costs ceases to be probable the assets would be required to be recognized in current period earnings.

#### Nuclear Decommissioning

Exelon's current estimate of its nuclear facilities' decommissioning cost is \$7.2 billion in current year (2002) dollars. Calculating this estimate involves significant assumptions with respect to the expected increases in decommissioning costs relative to general inflation rates, changes in the regulatory environment or regulatory requirements, and the timing of decommissioning. The estimated service life of the nuclear station is also a significant assumption because decommissioning costs are generally recognized over the life of the generating station. Cost estimates for decommissioning Exelon's nuclear facilities have been prepared by an independent engineering firm and reflect currently existing regulatory requirements and available technology. Nuclear station service lives, over which the decommissioning costs are recognized, were extended by 20 years in 2001. The life extension is subject to NRC approval of an extension of existing NRC operating licenses, which generally are 40 years. The obligation for decommissioning currently operating plants is recorded in accumulated depreciation consistent with industry practice. As discussed in New Accounting Pronouncements, this accounting will be affected by the adoption of SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143) effective January 1, 2003. See Notes 1 and 12 of the Notes to the Consolidated Financial Statements for further information regarding the accounting for decommissioning.

#### Unbilled Energy Revenues

Revenues related to the sale of energy are generally recorded when service is rendered or energy is delivered to customers. However, the determination of the energy sales to individual customers is based on the reading of their meters which are read on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on daily generation volumes, estimated customer usage by class, line losses and applicable customer rates based on regression analyses reflecting significant historical trends and experience. Customer accounts receivable as of December 31, 2001 include unbilled energy revenues of \$361 million.

#### Contract Accounting

Enterprises recognizes contract revenue and profits on certain long-term fixed-price contracts by the percentage-of-completion method of accounting. In determining the amount of revenue to recognize Exelon is required to estimate the total costs and profits expected to be recorded under the contract over its contract term, and the recoverability of costs related to change orders. Changes in these estimates could result in the recognition of differences in earnings.

#### Environmental Costs

As of December 31, 2001 Exelon had accrued liabilities of \$156 million for environmental investigation and remediation costs. The liabilities are based upon estimates with respect to the number of sites for which Exelon will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of the remediation work. Where timing and amounts of expenditures can be reliably estimated, amounts are discounted. Where timing and amounts cannot be reliably estimated, a range is estimated and the low end of the range is recognized on an undiscounted basis. Estimates can be affected by factors including future changes in technology, changes in regulations or requirements of local governmental authorities and actual costs of disposal.

#### Outlook

##### Changes in the Utility Industry

The electric utility industry in the United States remains in transition. It is moving from a fully regulated industry, consisting primarily of integrated companies combining generation, transmission and distribution, to competitive wholesale generation markets with continuing regulation of transmission and distribution. The transition has resulted in substantial disposition of generating assets by formerly integrated companies, the creation of separate, and in some cases, stand alone, generating companies and consolidation. During 2001, however, the pace of transition slowed. This slowdown was due primarily to public and governmental reactions to issues associated with deregulation efforts in California and the collapse of the wholesale electricity market in California.

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

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

Exelon also believes that competition for electric generation services has created new risks and uncertainties in the industry. Some of these risks were clearly illustrated in California - the risks of inadequate generation, having load obligations without owning generation, and price volatility. The situation in California also illustrated the need for additional infrastructure to support competitive markets. The uncertainties include future prices of generation services in both the



wholesale and retail markets, supply and demand volatility, and changes in customer profiles that may impact margins on various electric service offerings. These uncertainties create additional risk for participants in the industry, including Exelon, and may result in increased volatility in operating results from year to year.

#### Energy Delivery

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

Under restructuring regulations adopted at the Federal and state levels, the role of electric utilities in the supply and delivery of energy is changing. Energy Delivery continues to be obligated to provide reliable delivery systems under cost-based rates. It remains obligated, as a provider of last resort, to supply generation service during the transition period to a competitive supply marketplace to customers who do not or cannot choose an alternate supplier. Retail competition for generation services has resulted in reduced revenues from regulated rates and the sale of increasing amounts of energy at market-based rates.

Energy Delivery's revenues will be affected by rate reductions and rate freezes currently in effect at ComEd and PECO. The rate freezes limit Energy Delivery's ability to recover increased expenses and the costs of investments in new transmission and distribution facilities through rates. As a result, Energy Delivery's future results of operations will be dependent on its ability:

- to deliver electricity and, in the case of PECO, gas, to its customers cost-effectively, particularly in light of the current caps on rates and ComEd capital expenditure requirements,
- to realize cost savings from the Merger and synergies to offset increased costs on new investments and inflation while its delivery rates are capped and,
- to manage its provider of last resort responsibilities.

ComEd's results of operations will be affected by a legislatively mandated 5% residential base rate reduction that became effective in October 2001, a base rate freeze that will remain generally effective until at least January 1, 2005 and the collection of transition charges through at least 2006. PECO's results of operations will be affected by agreed-upon rate reductions of \$200 million, in aggregate, for the period 2002 through 2005 and caps (subject to limited exceptions for significant increases in Federal or state taxes or other significant changes in law or regulation that do not allow PECO to earn a fair rate of return) on its transmission and distribution rates through December 31, 2006 as a result of settlements previously reached with the PUC.

ComEd's obligations to make capital expenditures, combined with the rate freeze, could affect its earnings during the rate freeze period. ComEd is obligated to make capital expenditures with respect to its transmission and distribution system, including defined projects within the City of Chicago (City) as a result of a settlement agreement with the City and at least \$2 billion during the period 1999 through 2004 on transmission and distribution facilities outside of the City as a result of Illinois legislation. Given ComEd's commitments to improve the reliability of its transmission and distribution system, ComEd expects that its capital expenditures will exceed depreciation on its rate base assets through at least 2002. The base rate freeze will generally preclude rate recovery on and of those investments prior to January 1, 2005. Unless ComEd can offset the additional carrying costs against cost savings, its return on investment may be reduced during the period of the rate freeze and until rate increases are approved authorizing a return of and on this new investment.

PECO's results will be affected by annual increases in amortization of its stranded cost recovery through 2010. PECO has been authorized to recover stranded costs of \$5.3 billion (\$4.9 billion of unamortized costs at December 31, 2001) over a twelve-year period ending December 31, 2010 with a return on the unamortized balance of 10.75%. In 2001, revenue attributable to stranded cost recovery was \$797 million and is scheduled to increase to \$932 million by 2010, the final year of stranded cost recovery. Amortization of PECO's stranded cost recovery, which is a regulatory asset, is included in depreciation and amortization. The amortization expense for 2001 was \$271 million and will increase to \$879 million by 2010.

A substantial portion of Energy Delivery's customers have the right to choose their electricity suppliers. All of ComEd's non-residential customers have this right, and all of its residential customers will have this right as of May 1, 2002. All of PECO's retail customers have this right. At December 31, 2001, approximately 21% of ComEd's small commercial and

industrial load, and 42% of its large commercial and industrial load were purchasing their electric energy from an alternative electric supplier or chose the purchase power option, and approximately 28% of PECO's residential load, 6% of its small commercial and industrial load and 5% of its large commercial and industrial load were purchasing generation service from an alternate supplier.

Provider of last resort (POLR) obligations refer to the obligation of a utility to provide generation services (i.e., power and energy) to those customers who do not take service from an alternative generation supplier or who choose to come back to the utility after taking service from an alternative supplier. Because the choice lies with the customer, these obligations make it difficult for the utility to predict and plan for the level of customers and associated energy demand. If these obligations remain unchanged, the utility could be required to maintain reserves sufficient to serve 100% of the service territory load at a tariffed rate on the chance that customers who switched to new suppliers decide to come back to the utility as a "last resort" option. A significant over or under estimation of such reserves may cause commodity price risks for suppliers. Both ComEd and PECO have entered into long-term agreements with Generation to procure their power needs and achieve some certainty during the next several years with respect to these obligations. ComEd's agreement allows it to obtain sufficient power at fixed rates. PECO's agreement allows it to obtain sufficient power at the rates it is allowed to charge to serve customers who do not choose alternate generation suppliers.

In Illinois, utilities are required to offer bundled rates frozen at levels established prior to restructuring legislation until January 2005. The provider of last resort issue requires resolution in the near term, as the answer will affect pricing, competitive market development and planning by utilities, alternate suppliers and customers. ComEd has made an informal proposal, regarding its future provider of last resort obligations. The proposal seeks to balance the desire for a reliable supply of electricity at a reasonable price with more price certainty for smaller customers, such as residential customers, while continuing to develop a functioning competitive wholesale market for generation services. The proposal offers large customers a default power and energy offering at spot market rates, thereby freeing the utility from maintaining a long-term portfolio and making that capacity available to alternative suppliers. The proposal affords certainty of supply for large customers, but not price certainty. Recognizing that small customers may not yet have the same competitive options as large customers, the proposal offers small customers both supply and price certainty, protecting those customers from market volatility. The proposal would require regulatory action in order to become effective, and no assurance can be provided as to the timing of such action or the ultimate result of such action.

PECO's rates for generation services are generally capped through December 2010. Accordingly, the provider of last resort issue for PECO also requires resolution, but in a longer timeframe.

Transmission. Energy Delivery provides wholesale transmission service under rates established by FERC. FERC has used its regulation of transmission to encourage competition for wholesale generation services and the development of regional structures to facilitate regional wholesale markets. In December 1999, FERC issued Order No. 2000 (Order 2000) requiring jurisdictional utilities to file a proposal to form a regional transmission organization (RTO) or, alternatively, to describe efforts to participate in or work toward participating in an RTO or explain why they were not participating in an RTO. Order 2000 is generally designed to separate the governance and operation of the transmission system from generation companies and other market participants.

In response to Order 2000, ComEd and several other utilities filed a business plan in August 2001 with FERC describing the creation of Alliance Transmission Company, LLC (Alliance Transco or Alliance) as an independent, for-profit transmission company. In connection with the process leading to the FERC filing, ComEd issued a non-binding declaration of intent to divest to Alliance Transco transmission facilities having a gross book value in excess of \$1 billion. In a related action, ComEd entered into a non-binding memorandum of understanding with National Grid USA (National Grid), the proposed manager of Alliance Transco, setting forth general principles relating to the divestiture and Alliance Transco as a basis for further discussion.

On December 20, 2001, FERC issued several orders relating to RTOs operating in the Midwest. In those orders, FERC, among other things, approved Midwest Independent Transmission System Operator, Inc. (MISO) as an RTO and found that Alliance Transco lacked sufficient scope to be a stand-alone RTO. FERC also directed the Alliance participants to explore with the MISO how the

participants' business plan can be accommodated with the MISO operational framework and dismissed the business plan filed in August 2001 by the Alliance participants. In addition, FERC determined that National Grid is not a market participant within the meaning of Order 2000 and, thus, is eligible to become the managing member of Alliance Transco if that entity is formed. FERC further directed the Alliance participants to file a statement of their plans to join an RTO, including timeframes, within 60 days. As a result of the FERC orders, representatives of ComEd and the other Alliance participants are exploring various RTO participation options and are meeting with representatives of MISO to explore how the Alliance Transco may operate under the MISO.

The Alliance participants, including ComEd, filed their discussions with MISO at the FERC in February 2002, noting progress as to some issues, but also noted negotiations were ongoing. The Alliance participants also noted that they were exploring the possibility of filing their business plan within an RTO other than MISO.

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

#### Generation

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

Generation competes nationally in the wholesale electric generation markets on the basis of price and service offerings, utilizing its generation portfolio to assure customers of energy deliverability. Generation's generating capacity is primarily located in the Midwest, Mid-Atlantic and Northeast regions. Generation owns a 50% interest in AmerGen and a 49.9% interest in Sithe. Generation has agreed to supply ComEd and PECO with their respective load requirements for customers through 2006 and 2010, respectively. Longer term, ComEd and PECO supply requirements will be significantly impacted by the resolution of their POLR obligations and the extent of retail customer switching. Generation's future results will be impacted by these uncertainties and in turn, their impact on power purchase agreements with others, including Midwest Generation. Generation has also contracted with Exelon Energy, the competitive retail energy services subsidiary of Enterprises, to meet its load requirements pursuant to its competitive retail generation sales agreements. In addition, Generation has contracts to sell energy and capacity to third parties. To the extent that Generation's resources exceed its contractual commitments, it markets these resources on a short-term basis or sells them in the spot market.

Generation's future results of operations are dependent upon its ability to operate its generating facilities efficiently to meet its contractual commitments and to sell energy services in the wholesale markets. A substantial portion of Generation's capacity, including all of the nuclear capacity, is base load generation designed to operate for extended periods of time at low marginal costs. Nuclear generation is currently the most cost effective way for Generation to meet its commitments for sales to Energy Delivery and other utilities. During 2001, the nuclear generating fleet, including AmerGen operated at a 94.4% weighted average capacity factor. To cost effectively meet its long-term commitments to provide energy, including its commitment to meet the provider of last resort load obligations of ComEd and PECO, Generation must consistently operate its nuclear generating facilities at high capacity factors. Generation's planned nuclear capacity factor for 2002 is 91%. Failure to achieve this capacity level would require Generation to contract or purchase in the spot market more expensive energy to meet these commitments. Because of Generation's reliance on nuclear facilities, any changes in regulations by the NRC requiring additional investments or resulting in increased operating or decommissioning costs of nuclear generating units could adversely affect Generation.

The operating results of Generation depend on its level of sales and, for market sales, on the price of electricity, which is subject to significant volatility. Sales and market prices both depend on the demand for electricity. Consequently, operating results are expected to be stronger in the first and third quarters of each year when the winter and summer peak demand periods occur. Additionally, Generation's results of operations are impacted by refueling outages of its nuclear units, which reduce the generating availability of its nuclear units, as well as increasing maintenance and capital expenditures. The number of refueling outages, including AmerGen, is expected to increase to eleven in 2002 from six in 2001. Maintenance and capital expenditures are expected to increase by \$80 million and \$24 million, respectively in 2002 as compared to 2001 as a result of the additional nuclear refueling outages.

Generation intends to continue to grow its generation portfolio through asset acquisitions, development of new plants, innovative application of technology, joint ventures and long-term contracts. New investments in generation, whether purchased or developed, are dependent on the future success of both the bilateral and spot energy wholesale markets, which are newly created and continuing to develop. Regardless of the approach, Generation intends to remain disciplined in its opportunities to expand its generation portfolio, including its evaluation of the potential return on investments as well as the risks of investments.

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

Generation has entered into purchase power agreements (PPAs) dated December 18, 2001 and November 22, 1999 with AmerGen. Under the 2001 PPA, Exelon has agreed to purchase from AmerGen all the energy from Unit No. 1 at Three Mile Island Nuclear Station after December 31, 2001 through December 31, 2014. Under the 1999 PPA, Generation has agreed to purchase from AmerGen all of the residual energy from Clinton through December 31, 2002. Currently, the residual output approximates 25% of the total output of Clinton. In 2001, the amount of power purchased from AmerGen recorded in Fuel and Purchased Power in the Consolidated Statements of Income was \$57 million.

In addition, 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 by AmerGen on 90 days' notice. Generation is compensated for these services in an amount agreed to in the work order but not less than the higher of fully allocated costs for performing the services or the market price. The amount charged to AmerGen for these services in 2001 was \$80 million.

#### Enterprises

Enterprises consists primarily of the infrastructure services business of InfraSource, Inc. (InfraSource), the energy services business of Exelon Services, Inc., the competitive retail energy sales business of Exelon Energy, Inc., the district cooling business of Exelon Thermal Technologies, Inc., communications joint ventures and other investments weighted towards the communications, energy services and retail services industries. InfraSource, formerly Exelon Infrastructure Services, Inc. (EIS), was renamed effective November 15, 2001 in order to effectively unite all of the EIS companies under one brand name. Enterprises' results of operations will be affected by its ability:

- - to integrate various acquired businesses in the infrastructure services business so as to realize synergies and cost savings, and
- - to rationalize certain investments either by improving margins or, in appropriate cases, by disposition to third parties.

The results of InfraSource's infrastructure services business and Exelon Services' energy services business are dependent on demand for outsourced construction and maintenance services. That demand has been driven in the past by the restructuring of the electric utility industry and growth of the communications, cable and internet industries. Slowdown in that restructuring and the current condition of the communications, cable and internet industries means that results will be driven by efforts to manage costs and achieve synergies.

Exelon Energy's competitive retail energy sales business is dependent upon continued deregulation of retail electric and gas markets and its ability to obtain supplies of electricity and gas at competitive prices in the wholesale market. The low margin nature of the business makes it important to achieve concentrations of customers with higher volumes so as to manage costs.

Enterprises' investments are weighted toward the communications industry, but also include companies in energy services and retail services, including e-commerce. Investments in the communications industries have included joint ventures with established companies. Investments in other areas have generally been in new entrepreneurial companies with technologies and applications for the deregulating energy marketplace. Enterprises continually monitors the performance and potential of its investments and evaluates opportunities to sell existing investments and to make new investments. In the past, Exelon has been required to write-off or write-down certain investments. The sale, write-down, or write-off of investments may increase the volatility of earnings. The adoption of SFAS No. 142 is expected to result in an impairment of Enterprises' goodwill which will be recorded in the first quarter of 2002. See New Accounting Pronouncements.

#### Other Factors

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

In 2001, Exelon made several changes to its pension plans and postretirement benefit plans including consolidating the former Unicom and PECO plans into Exelon plans. Also, a cash balance pension plan was adopted to cover essentially all management and electing union employees hired on or after January 1, 2001. Management employees who were active participants in the former Unicom and PECO pension plans on December 31, 2000 and remain employed by Exelon on January 1, 2002, will have the opportunity to continue to participate in the pension plan or to transfer to the cash balance plan. Exelon also adopted an amendment to the former Unicom postretirement medical benefit plan that changed the eligibility requirement of the plan to cover employees taking their pensions with ten years of service after age 45 rather than ten years of service and having attained the age of 55.

Exelon's costs of providing pension and postretirement benefits to its retirees is dependent upon a number of factors, such as the discount rate, rates of return on plan assets, and the assumed rate of increase in health care costs. Although Exelon's pension and postretirement expense is determined using three-year averaging and is not as vulnerable to a single year's change in rates, these costs are expected to increase in 2002 and beyond as the result of the above noted plan changes along with the affects of the decline in market value of plan assets, changes in appropriate assumed rates of return on plan assets and discount rates, and increases in health care costs. For a discussion of Exelon's pension and postretirement benefit plans, see Note 16 of the Notes to Consolidated Financial Statements.

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

As of December 31, 2001 and 2000, Exelon had accrued \$156 million and \$172 million, respectively, for environmental investigation and remediation costs, including \$127 million and \$140 million, respectively, for MGP investigation and remediation that currently can be reasonably estimated. Exelon expects to expend \$35 million for environmental remediation

activities in 2002. Exelon cannot predict whether it will incur other significant liabilities for any additional investigation and remediation costs at these or additional sites identified by Exelon, environmental agencies or others, or whether such costs will be recoverable from third parties.

**Security Issues and Other Impacts of Terrorist Actions** The events of September 11, 2001 have affected Exelon's operating procedures and costs and are expected to affect the cost and availability of the insurance coverages that Exelon carries. Exelon has initiated security measures to safeguard its employees and critical operations and is actively participating in industry initiatives to identify methods to maintain the reliability of its energy production and delivery systems. It is expected that governmental authorities will be working to ensure that emergency plans are in place and that critical infrastructure vulnerabilities are addressed. The electric utility industry is proposing security guidelines rather than government mandated standards to protect critical infrastructures. It is not known if Federal standards will be issued to the electric or gas industries. Exelon is evaluating enhanced security measures at certain critical locations, enhanced response and recovery plans and assessing longer term design changes and redundancy measures. These measures will involve additional expense to develop and implement.

The NRC has placed all nuclear generating plants on its highest alert status, requiring increased security measures, enhanced communication with authorities at all levels of government and enhanced physical barriers. These additional measures are estimated to cost between \$600,000 and \$900,000 annually for each of Exelon's ten operating plants. Exelon can not predict how long the NRC will keep nuclear plants on this status. The NRC also has undertaken an initiative to perform a "top to bottom" review of nuclear security in light of the September 11, 2001 events. Exelon cannot predict when the NRC review will be completed or whether additional actions and expenditures will be required as a result.

Exelon carries nuclear liability insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims arising from a single incident. The current limit is \$9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. Through its subsidiaries, Exelon carries the maximum available commercial insurance of \$200 million. The remaining \$9.3 billion is provided through mandatory participation in a financial protection pool. Exelon cannot predict the effects on operations of the August 2002 expiration of the Price-Anderson Act.

In addition to nuclear liability insurance, Exelon also carries property damage and liability insurance for its properties and operations. As a result of significant changes in the insurance marketplace, due in part to the September 11, 2001 terrorist acts, the available coverage and limits may be less than the amount of insurance obtained in the past, and the recovery for losses due to terrorists acts may be limited. Exelon is self-insured to the extent that any losses may exceed the amount of insurance maintained. Nuclear Electric Insurance Limited (NEIL), a mutual insurance company to which Exelon belongs, provides property and business interruption insurance for Exelon's nuclear operations. In recent years, NEIL has made distributions to its members. Exelon's distribution for 2001 is \$69 million, which was recorded as a reduction to Operating and Maintenance expense on Exelon's Consolidated Statements of Income. Due in part to the September 11, 2001 events, Exelon cannot predict the level of future distributions, although they are expected to be lower than recent levels.

Exelon does not carry any business interruption insurance other than the NEIL coverage for nuclear operations. Damage to Energy Delivery's properties could disrupt the distribution of its and Generation's product and significantly and adversely affect results of operations. Exelon cannot predict the effects on operations of the availability of property damage and liability coverage or any disruptions to its delivery facilities.

For a discussion of nuclear insurance and other contingencies, see Note 20 of the Notes to Consolidated Financial Statements.

#### New Accounting Pronouncements

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

SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. SFAS No. 141 is effective for business combinations initiated after June 30, 2001.

SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. Exelon adopted SFAS No. 142 as of January 1, 2002. Under SFAS No. 142, effective January 1, 2002, goodwill recorded by Exelon is no longer subject to amortization. After January 1, 2002, goodwill will be subject to an assessment for impairment using a two-step fair value

based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss would be reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss would be reflected as a cumulative effect of a change in accounting principle. As of December 31, 2001, Exelon's Consolidated Balance Sheets reflected approximately \$5.3 billion in goodwill net of accumulated amortization, including \$4.9 billion of net goodwill related to the merger of Unicom and PECO recorded on ComEd's Consolidated Balance Sheets, with the remainder related to Enterprises. Annual amortization of goodwill related to the Merger and to Enterprises of \$126 million and \$24 million, respectively, was discontinued upon adoption of SFAS No. 142. Exelon has completed the first step of the transitional impairment analysis which indicated that the ComEd goodwill is not impaired but that an impairment exists with respect to the Enterprises goodwill. The second step of the analysis, which will compare the fair value of the Enterprises goodwill to the \$433 million carrying value at December 31, 2001 has not yet been completed. The second step analysis is expected to be completed, and the transitional impairment loss recognized, in the first quarter of 2002 as a Cumulative Effect of a Change in Accounting Principle.

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

The effect of this cumulative adjustment will be to increase the decommissioning liability to reflect a full decommissioning obligation in current year dollars. Additionally, the standard will require the accrual of an asset related to the full amount of the decommissioning obligation, which will be amortized over the remaining lives of the plants. The difference between the asset recognized and the liability recorded upon adoption of the standard will be charged to earnings and recognized as a cumulative effect, net of expected regulatory recovery. The decommissioning liability to be recorded represents an obligation for the future decommissioning of the plants, and as a result interest expense will be accrued on this liability until such time as the obligation is satisfied.

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

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

#### Forward-Looking Statements

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements that are subject to risks and uncertainties. The factors that could cause actual results to differ materially include those discussed herein as well as those listed in Note 20 of the Notes to Consolidated Financial Statements and other factors discussed in Exelon's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. Exelon undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Report.

Exelon Corporation and Subsidiary Companies  
Financial Statements and Supplementary Data

To the Shareholders and Board of Directors of Exelon Corporation:

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

As discussed in Note 2 to the consolidated financial statements, Exelon acquired Unicom Corporation on October 20, 2000 in a business combination accounted for under the purchase method of accounting. The results of Unicom Corporation are included in the consolidated financial statements since the acquisition date.

As discussed in Note 5 to the consolidated financial statements, Exelon changed its method of accounting for nuclear outage costs in 2000. As discussed in Note 1 to the consolidated financial statements, Exelon changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois  
January 29, 2002, except for Note 25 for which the date is March 1, 2002.



Consolidated Statements of Income  
Exelon Corporation and Subsidiary Companies

in millions, except per share data	For the Years Ended December 31,		
	2001	2000	1999
Operating Revenues	\$ 15,140	\$ 7,499	\$ 5,478
Operating Expenses			
Fuel and Purchased Power	5,313	2,606	2,152
Operating and Maintenance	4,393	2,310	1,454
Merger-Related Costs	--	276	--
Depreciation and Amortization	1,449	458	237
Taxes Other Than Income	623	322	262
Total Operating Expenses	11,778	5,972	4,105
Operating Income	3,362	1,527	1,373
Other Income and Deductions			
Interest Expense, net of amounts capitalized	(1,107)	(608)	(396)
Distributions on Preferred Securities of Subsidiaries	(49)	(24)	(33)
Equity in Earnings (Losses) of Unconsolidated Affiliates	62	(41)	(38)
Other, Net	79	53	59
Total Other Income and Deductions	(1,015)	(620)	(408)
Income Before Income Taxes, Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	2,347	907	965
Income Taxes	931	341	358
Income Before Extraordinary Items and Cumulative Effects of Changes in Accounting Principles	1,416	566	607
Extraordinary Items (net of income taxes of \$2, and \$25 for 2000, and 1999, respectively)	--	(4)	(37)
Cumulative Effect of Changes in Accounting Principles (net of income taxes of \$8 and \$16 in 2001 and 2000, respectively)	12	24	--
Net Income	\$ 1,428	\$ 586	\$ 570
Average Shares of Common Stock Outstanding	320	202	196
Earnings Per Common Share:			
Basic:			
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	\$ 4.42	\$ 2.81	\$ 3.10
Extraordinary Items	--	(0.02)	(0.19)
Cumulative Effect of Changes in Accounting Principles	0.04	0.12	--
Net Income	\$ 4.46	\$ 2.91	\$ 2.91
Diluted:			
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	\$ 4.39	\$ 2.77	\$ 3.08
Extraordinary Items	--	(0.02)	(0.19)
Cumulative Effect of Changes in Accounting Principles	0.04	0.12	--
Net Income	\$ 4.43	\$ 2.87	\$ 2.89
Dividends Per Common Share	\$ 1.82	\$ 0.91	\$ 1.00

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows  
Exelon Corporation and Subsidiary Companies

in millions	For the Years Ended December 31,		
	2001	2000	1999
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 1,428	\$ 586	\$ 570
Adjustments to reconcile Net Income to Net Cash Flows provided by Operating Activities:			
Depreciation and Amortization	1,834	607	358
Extraordinary Items (net of income taxes)	--	4	37
Cumulative Effects of Changes in Accounting Principles (net of income taxes)	(12)	(24)	--
Provision for Uncollectible Accounts	145	89	59
Deferred Income Taxes	(68)	193	7
Merger-Related Costs	--	276	--
Employee Severance Costs	46	--	--
Deferred Energy Costs	29	(79)	23
Equity in (Earnings) Losses of Unconsolidated Affiliates	(62)	41	38
Net Realized Losses on Nuclear Decommissioning Trust Funds	127	--	--
Other Operating Activities	20	(169)	6
Changes in Working Capital:			
Accounts Receivable	257	(445)	(159)
Repurchase of Accounts Receivable	--	(50)	(150)
Inventories	(33)	49	(43)
Accounts Payable, Accrued Expenses & Other Current Liabilities	(129)	(2)	149
Other Current Assets	33	20	(12)
<b>Net Cash Flows provided by Operating Activities</b>	<b>3,615</b>	<b>1,096</b>	<b>883</b>
<b>Cash Flows from Investing Activities</b>			
Investment in Plant	(2,041)	(752)	(491)
Unicom Merger Consideration	--	(507)	--
Proceeds from Direct Financing Leases	--	1,228	--
Investment in Sithe Energies, Inc.	--	(704)	--
InfraSource Acquisitions	(30)	(245)	(222)
Investments in and Advances to Joint Ventures	--	--	(118)
Proceeds from Nuclear Decommissioning Trust Funds	1,624	265	69
Investment in Nuclear Decommissioning Trust Funds	(1,863)	(380)	(95)
Other Investing Activities	(82)	(108)	(29)
<b>Net Cash Flows used in Investing Activities</b>	<b>(2,392)</b>	<b>(1,203)</b>	<b>(886)</b>
<b>Cash Flows from Financing Activities</b>			
Issuance of Long-Term Debt, net of issuance costs	2,270	1,021	4,170
Common Stock Repurchases	--	(501)	(1,693)
Retirement of Long-Term Debt	(1,860)	(665)	(1,343)
Change in Short-Term Debt	(1,013)	10	(388)
Redemption of Preferred Securities of Subsidiaries	(17)	(19)	(258)
Dividends on Common Stock	(583)	(157)	(196)
Change in Restricted Cash	(58)	(140)	(174)
Proceeds from Employee Stock Plans	39	67	19
Capital Lease Payments	--	--	(139)
Other Financing Activities	(42)	(11)	11
<b>Net Cash Flows provided by (used in) Financing Activities</b>	<b>(1,264)</b>	<b>(395)</b>	<b>9</b>
Increase (Decrease) in Cash and Cash Equivalents	(41)	(502)	6
Cash and Cash Equivalents at beginning of period	526	54	48
Cash Acquired in Unicom Merger	--	974	--
<b>Cash and Cash Equivalents at end of period</b>	<b>\$ 485</b>	<b>\$ 526</b>	<b>\$ 54</b>

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets  
Exelon Corporation and Subsidiary Companies

	at December 31,	
in millions	2001	2000
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 485	\$ 526
Restricted Cash	372	314
Accounts Receivable, net		
Customer	1,687	2,137
Other	472	371
Inventories, at average cost		
Fossil Fuel	222	157
Materials and Supplies	249	297
Deferred Income Taxes	23	62
Other	272	287
<b>Total Current Assets</b>	<b>3,782</b>	<b>4,151</b>
Property, Plant and Equipment, net	13,742	12,936
<b>Deferred Debits and Other Assets</b>		
Regulatory Assets	6,423	7,135
Nuclear Decommissioning Trust Funds	3,165	3,109
Investments	1,666	1,546
Goodwill, net	5,335	5,186
Other	708	723
<b>Total Deferred Debits and Other Assets</b>	<b>17,297</b>	<b>17,699</b>
<b>Total Assets</b>	<b>\$ 34,821</b>	<b>\$ 34,786</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Notes Payable	\$ 360	\$ 1,373
Long-Term Debt Due Within One Year	1,406	908
Accounts Payable	964	1,193
Accrued Expenses	1,182	989
Other	505	530
<b>Total Current Liabilities</b>	<b>4,417</b>	<b>4,993</b>
Long-Term Debt	12,876	12,958
<b>Deferred Credits and Other Liabilities</b>		
Deferred Income Taxes	4,303	4,409
Unamortized Investment Tax Credits	316	330
Nuclear Decommissioning Liability for Retired Plants	1,314	1,301
Pension Obligations	334	416
Non-Pension Postretirement Benefits Obligation	847	817
Spent Nuclear Fuel Obligation	843	810
Other	728	907
<b>Total Deferred Credits and Other Liabilities</b>	<b>8,685</b>	<b>8,990</b>
Preferred Securities of Subsidiaries	613	630
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common Stock	6,930	6,890
Deferred Compensation	(2)	(7)
Retained Earnings	1,200	332
Accumulated Other Comprehensive Income	102	--
<b>Total Shareholders' Equity</b>	<b>8,230</b>	<b>7,215</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 34,821</b>	<b>\$ 34,786</b>

See Notes to Consolidated Financial Statements

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

Dollars in millions, shares in thousands	Shares	Common Stock	Deferred Compensation	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 1998	224,684	\$ 3,558	\$ --	\$ (501)	\$ --	\$ --	\$ 3,057
Net Income		--	--	570	--	--	570
Long-Term Incentive Plan Issuances	670	19	(5)	15	--	--	29
Amortization of Deferred Compensation		--	2	--	--	--	2
Common Stock Dividends		--	--	(196)	--	--	(196)
Common Stock Repurchases		--	--	12	(1,705)	--	(1,693)
Other Comprehensive Income, net of income taxes of \$3		--	--	--	--	4	4
Balance, December 31, 1999	225,354	\$ 3,577	\$ (3)	\$ (100)	\$ (1,705)	\$ 4	\$ 1,773
Net Income		--	--	586	--	--	586
Long-Term Incentive Plan Issuances	563	67	(9)	8	7	--	73
Shares Issued to Acquire Unicom	147,963	5,310	--	--	--	--	5,310
Merger Consideration-Stock Options		111	--	--	--	--	111
Amortization of Deferred Compensation		--	5	--	--	--	5
Common Stock Dividends		--	--	(157)	--	--	(157)
Common Stock Repurchases		--	--	(5)	(496)	--	(501)
Stock Option Exercises		--	--	--	19	--	19
Cancellation of Treasury Shares	(54,875)	(2,175)	--	--	2,175	--	--
Other Comprehensive Income, net of income taxes of \$(3)		--	--	--	--	(4)	(4)
Balance, December 31, 2000	319,005	\$ 6,890	\$ (7)	\$ 332	\$ --	\$ --	\$ 7,215
Net Income		--	--	1,428	--	--	1,428
Long-Term Incentive Plan Issuances	1,864	32	--	23	--	--	55
Employee Stock Purchase Plan Issuances	138	6	--	--	--	--	6
Merger Consideration-Stock Options		2	--	--	--	--	2
Amortization of Deferred Compensation		--	5	--	--	--	5
Common Stock Dividends		--	--	(583)	--	--	(583)
Reclassified Net Unrealized Losses on Marketable Securities, net of income taxes of \$22		--	--	--	--	(23)	(23)
Other Comprehensive Income, net of income tax benefit of \$197		--	--	--	--	125	125
Balance, December 31, 2001	321,007	\$ 6,930	\$ (2)	\$ 1,200	\$ --	\$ 102	\$ 8,230

Consolidated Statements of Comprehensive Income  
Exelon Corporation and Subsidiary Companies

in millions	For the Years Ended December 31,		
	2001	2000	1999
Net Income	\$ 1,428	\$ 586	\$ 570
Other Comprehensive Income			
SFAS 133 Transition Adjustment, net of income taxes of \$18	\$ 44	\$ --	\$ --
Cash Flow Hedge Fair Value Adjustment, net of income taxes of \$20	22	--	--
Foreign Currency Translation Adjustment, net of income taxes of \$0	(1)	--	--
Unrealized Gain (Loss) on Marketable Securities, net of income taxes of \$145, \$1 and \$(1), respectively	60	(4)	4
Total Other Comprehensive Income	125	(4)	4
Total Comprehensive Income	\$ 1,553	\$ 582	\$ 574

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Exelon Corporation and Subsidiary Companies

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

1. Significant Accounting Policies

Description of Business

Exelon Corporation (Exelon) is a utility services holding company formed as a result of the merger of Unicom Corporation (Unicom) and PECO Energy Company (PECO) (Merger). See Note 2 - Merger. Exelon is engaged, through subsidiaries, in the energy delivery, wholesale generation and the energy-related enterprises businesses. See Note 21 - Segment Information. The energy delivery business consists of the retail electricity distribution and transmission businesses of Commonwealth Edison Company (ComEd) in northern Illinois and PECO in southeastern Pennsylvania and the natural gas distribution business of PECO located in the Pennsylvania counties surrounding the City of Philadelphia. The wholesale generation business consists of the electric generating facilities and energy marketing operations of Exelon Generation LLC (Generation) and Generation's interests in Sithe Energies, Inc. (Sithe) and AmerGen Energy Company LLC (AmerGen). Exelon Enterprises Company, LLC (Enterprises) includes energy and infrastructure services, competitive retail energy sales, communications joint ventures and other investments weighted towards the communications, energy services and retail services industries.

Basis of Presentation

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

On October 20, 2000, Exelon became the parent of PECO through a share exchange and Unicom, the parent of ComEd, was merged into Exelon. As a result of these transactions, Unicom ceased to exist and Exelon became the parent of ComEd and PECO. See Note 2 - Merger. In addition, for accounting purposes, PECO was deemed the acquirer in the Merger. Accordingly, the financial statements of Exelon for the periods presented prior to October 20, 2000 represent the historical financial statements of PECO and for the periods from October 20, 2000 include the operations acquired from Unicom.

Accounting for the Effects of Regulation

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

Use of Estimates

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

Revenues

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

Purchased Gas Adjustment Clause

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

Nuclear Fuel

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

Depreciation, Amortization and Decommissioning

Depreciation is provided over the estimated service lives of property, plant and equipment on a straight line basis. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average service life for each asset category are presented in the table below. See Note 23 for information on service life extensions for certain nuclear generating stations.

Asset Category	2001	2000	1999
Electric-Transmission and Distribution	3.97%	4.16%	1.83%
Electric-Generation	3.11%	5.02%	5.12%
Gas	2.34%	2.39%	2.36%
Common - Gas and Electric	6.26%	5.09%	4.45%
Other Property and Equipment	9.53%	8.11%	8.61%

Amortization of regulatory assets is provided over the recovery period as specified in the related regulatory agreement. Goodwill associated with the Merger was amortized on a straight line basis over 40 years in 2000 and 2001. Goodwill associated with other acquisitions was amortized over periods from 10 to 20 years in 2000 and 2001. Accumulated amortization of goodwill was \$185 million, \$35 million and \$1 million at December 31, 2001, 2000 and 1999, respectively. Effective January 1, 2002 under SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142), goodwill recorded by Exelon will no longer be subject to amortization.

Exelon currently recovers costs for decommissioning its nuclear generating stations through regulated rates. The amounts recovered from customers are deposited in trust accounts and invested for funding of future costs for operating and retired plants. Exelon accounts for the current period's cost of decommissioning related to generating plants previously owned by PECO following common regulatory accounting practices by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation concurrently with decommissioning collections. Regulatory accounting practices for the generating stations previously owned by ComEd were discontinued as a result of an ICC order capping ComEd's ultimate recovery of decommissioning costs. See Note 4 - Corporate Restructuring and Note 12 - Nuclear Decommissioning and Spent Fuel Storage, regarding regulatory accounting practices for nuclear generating stations transferred by ComEd to Generation. The difference between the current cost decommissioning estimate and the decommissioning liability recorded in accumulated depreciation for the former ComEd operating stations is amortized to depreciation expense on a straight-line basis over the remaining lives. The current cost decommissioning estimate (adjusted annually to reflect inflation) for the former ComEd retired units recorded in deferred credits and other liabilities is accreted to depreciation expense. Exelon believes that the amounts being recovered from customers through electric rates along with the earnings on the trust funds will be sufficient to fully fund its decommissioning obligations.

#### Capitalized Interest

Exelon uses SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its non-regulated construction projects. Exelon recorded capitalized interest of \$17 million, \$2 million and \$6 million in 2001, 2000 and 1999, respectively.

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

#### Income Taxes

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

#### Gains and Losses on Recquired Debt

Recoverable gains and losses on reacquired debt related to regulated operations are deferred and amortized to interest expense over the period consistent with rate recovery for ratemaking purposes. Gains and losses on other debt are recognized in Exelon's Consolidated Statements of Income as incurred.

#### Comprehensive Income

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

#### Cash and Cash Equivalents

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

#### Restricted Cash

Restricted cash reflects unused cash proceeds from the issuance of the transition bonds and transitional trust notes, and escrowed cash to be applied to the principal and interest payment on the transition bonds and transitional trust notes.

#### Marketable Securities

Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Under regulatory accounting practices, unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds are reported in accumulated depreciation for operating units and as a reduction of regulatory assets for retired units. When regulatory accounting practices are discontinued, unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds are reported in accumulated other comprehensive income. At December 31, 2001 and 2000, Exelon had no held-to-maturity or trading securities.

#### Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Exelon evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. The cost of maintenance, repairs and minor replacements of property are charged to maintenance expense as incurred.

Upon retirement, the cost of regulated property plus removal costs less salvage value, are charged to accumulated depreciation by the regulated subsidiaries in accordance with regulatory practices. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition.

#### Capitalized Software Costs

Costs incurred during the application development stage of software projects for software which is developed or obtained for internal use are capitalized. At December 31, 2001 and 2000, capitalized software costs totaled \$240 million and \$285 million, respectively, net of \$85 million and \$53 million accumulated amortization, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed ten years. Certain capitalized software is being amortized over fifteen years pursuant to regulatory approval.

#### Derivative Financial Instruments

Exelon accounts for derivative financial instruments under SFAS No. 133 "Accounting for Derivatives and Hedging Activities" (SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases and normal sales exception. Changes in the fair value of the derivative financial instruments are recognized in earnings unless specific hedge accounting criteria are met. A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

In connection with Exelon's Risk Management Policy (RMP), Exelon enters into derivatives to manage its exposure to fluctuation in interest rates related to its variable rate debt instruments, changes in interest rates related to planned future debt issuances prior to their actual issuance and changes in the fair value of outstanding debt which is planned for early retirement. As it relates to energy transactions, Exelon utilizes derivatives to manage the utilization of its available generating capability and provisions of wholesale energy to its affiliates. Exelon also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Exelon enters into certain energy related derivatives for trading or speculative purposes.

As part of Exelon's energy marketing business, Exelon enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While these contracts are considered derivative financial instruments under SFAS No. 133, the majority of these transactions have been designated as "normal purchases" and "normal sales" and are not subject to the provisions of SFAS No. 133. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. Under these contracts Exelon recognizes gains or losses when the underlying physical transaction affects earnings. Revenues and expenses associated with market price risk management contracts are amortized over the terms of such contracts. Commitments under these contracts are discussed in Note 20 - Commitments and Contingencies. The remainder



of these contracts are generally considered cash flow hedges under SFAS No. 133. To the extent that the hedges are effective, changes in the fair value of these contracts are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

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

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

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

#### New Accounting Pronouncements

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

SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. SFAS No. 141 is effective for business combinations initiated after June 30, 2001.

SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. Exelon adopted SFAS No. 142 as of January 1, 2002. Under SFAS No. 142, effective January 1, 2002, goodwill recorded by Exelon is no longer subject to amortization. After January 1, 2002, goodwill will be subject to an assessment for impairment using a two-step fair value based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss would be reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss would be reflected as a cumulative effect of a change in accounting principle. As of December 31, 2001, Exelon's Consolidated Balance Sheets reflected approximately \$5.3 billion in goodwill net of accumulated amortization, including \$4.9 billion of net goodwill related to the merger of Unicom and PECO recorded on ComEd's Consolidated Balance Sheets, with the remainder related to Enterprises. Annual amortization of goodwill related to the Merger and to Enterprises of \$126 million and \$24 million, respectively, was discontinued upon adoption of SFAS No. 142. Exelon has completed the first step of the transitional impairment analysis which indicated that the ComEd goodwill is not impaired but that an impairment exists with respect to the Enterprises goodwill. The second step of the analysis, which will compare the fair value of the Enterprises goodwill to the \$433 million carrying value at December 31, 2001 has not yet been completed. The second step analysis is expected to be completed and the transitional impairment loss recognized, in the first quarter of 2002 as a Cumulative Effect of a Change in Accounting Principle.

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

The effect of this cumulative adjustment will be to increase the decommissioning liability to reflect a full decommissioning obligation in current year dollars. Additionally, the standard will require the accrual of an asset related to the full amount of the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference between the asset recognized and the liability recorded upon adoption of the standard will be charged to earnings and recognized as a cumulative effect, net of expected regulatory recovery. The decommissioning liability to be recorded represents an obligation for the future decommissioning of the plants, and as a result interest expense will be accrued on this liability until such time as the obligation is satisfied.

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

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

#### Reclassifications

Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect net income.

## 2. Merger

On October 20, 2000, Exelon became the parent corporation of PECO and ComEd as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended (Merger Agreement), among PECO, Unicom Corporation (Unicom) and Exelon. Pursuant to the Merger Agreement, Unicom merged with and into Exelon (Merger). In the Merger, each share of the outstanding common stock of Unicom was converted into 0.875 shares of common stock of Exelon plus \$3.00 in cash. As a result of the Share Exchange, Exelon became the owner of all of the common stock of PECO. As a result of the Merger, Unicom ceased to exist and its subsidiaries, including ComEd, became subsidiaries of Exelon.

The Merger was accounted for using the purchase method of accounting. The total purchase price was \$5,975 million. In connection with the Merger, Exelon issued 148 million shares of common stock in the amount of \$5,310 million and paid \$507 million in cash to Unicom shareholders pursuant to the terms of the Merger Agreement. The source of the cash consideration was borrowings under an Exelon term loan. In addition, the Merger consideration included \$113 million of fair value of stock options and awards for certain Unicom employees and \$45 million of direct acquisition costs. The cost in excess of net assets acquired was \$5,136 million as adjusted to reflect final purchase price allocations. Exelon's results of operations include Unicom's results of operations since October 20, 2000. The fair value of the assets acquired, including the cost in excess of net assets acquired, and liabilities assumed in the Merger are as follows:

-----	
Current Assets (including cash of \$974)	\$ 2,744
Property, Plant and Equipment	7,641
Deferred Debits and Other Assets	5,535
Cost in excess of net assets acquired	5,136
Current Liabilities	(2,413)
Long-Term Debt	(7,419)
Deferred Credits and Other Liabilities	(4,921)
Preferred Securities of Subsidiaries	(328)
-----	
Total Purchase Price	\$ 5,975
=====	

Goodwill associated with the merger increased by \$262 million in 2001 as a result of the finalization of the purchase price allocation. The adjustment resulted primarily from the after-tax effects of the reduction of the regulatory asset for decommissioning retired nuclear plants, as discussed in Note 12 - Nuclear Decommissioning and Spent Fuel Storage, additional employee separation costs and the finalization of other purchase price allocations.

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

(unaudited)	2000	1999
Total revenues	\$ 13,531	\$ 12,225
Pro forma net income	\$ 1,007	\$ 1,184
Merger-related costs (net of income taxes of \$147 million)	220	--
Extraordinary items (net of income taxes of \$2 million and \$25 million for 2000 and 1999, respectively)	(4)	(37)
Cumulative effect of a change in accounting principle (net of income taxes of \$16 million)	24	--
Pro forma net income before Merger-related costs, extraordinary items and cumulative effect of a change in accounting principle	\$ 1,247	\$ 1,147
Proforma net income before Merger-related costs, extraordinary items and cumulative effect of a change in accounting principle per common share (diluted)	\$ 3.86	\$ 3.55

Pro forma information assumes the effects of Unicom's 1999 fossil plant sale and the issuance of transition bonds and notes occurred at the beginning of 1999. The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the Merger been consummated as of the dates indicated, nor are they necessarily indicative of future operating results.

#### Merger-Related Costs

In association with the Merger, Exelon recorded certain reserves for restructuring costs. The reserves associated with PECO were charged to expense, while the reserves associated with Unicom were recorded as part of the application of purchase accounting and did not affect results of operations.

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

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

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

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

(a) The increase is a result of the identification in 2001 of additional positions to be eliminated.

(b) The reduction results from lower estimated pension and post retirement welfare benefits reflecting revised actuarial estimates.

Additional employee severance costs of \$48 million primarily related to PECO employees were charged to expense in 2001. Exelon anticipates that a total of \$289 million of employee costs will be funded from pension and postretirement benefit plans and \$191 million of Unicom employee severance costs will be funded from general corporate funds.

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

Employee severance and relocation reserve as of October 20, 2000	\$ 149
Additional reserve	42
Adjusted employee severance and relocation reserve	191
Payments to employees (October 2000-December 2001)	(77)
Employee severance and relocation reserve as of December 31, 2001	\$ 114

Approximately 3,400 Unicom and PECO positions have been identified to be eliminated as a result of the merger. Exelon has terminated 1,461 employees as of December 31, 2001. The remaining positions are expected to be eliminated by the end of 2002.

### 3. Acquisitions

Sithe Energies, Inc. Acquisition Generation owns 49.9% of the outstanding common stock of Sithe and has an option, beginning on December 18, 2002, to purchase the remaining common stock outstanding (Remaining Interest) in Sithe. The purchase option expires on December 18, 2005. In addition, the Sithe stockholders who own in the aggregate the Remaining Interest have the right to require Generation to purchase the Remaining Interest (Put Rights) during the same period in which Generation can exercise its purchase option. At the end of this exercise period, if Generation has not exercised its purchase option and the other Sithe stockholders have not exercised their Put Rights, Generation will have an additional one-time option to purchase shares from the other stockholders in Sithe to bring Generation's ownership in Sithe from the current 49.9% to 50.1% of Sithe's total outstanding common stock.

If Generation exercises its option to acquire the Remaining Interest, or if all the other Sithe stockholders exercise their Put Rights, the purchase price for 70% of the Remaining Interest will be set at fair market value subject to a floor of \$430 million and a ceiling of \$650 million. The balance of the Remaining Interest will be valued at fair market value without being subject to floor or ceiling prices. In either instance, interest shall accrue from the beginning of the exercise period.

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

Sithe, headquartered in New York, is a leading independent power producer, with ownership interests in 27 facilities in North America. Sithe has net generation capacity of 3,371 MW, primarily in New York and Massachusetts, 2,651 MW under construction and 2,400 MW in advanced development.

InfraSource, Inc. Acquisitions

In 2001 InfraSource, Inc. (InfraSource), formerly Exelon Infrastructure Services, Inc., acquired the assets of a utility service contracting company for an aggregate purchase price of approximately \$30 million. In 2000, InfraSource acquired the stock or assets of seven utility services contracting companies for an aggregate purchase price of approximately \$245 million. The acquisitions were accounted for using the purchase method of accounting. The initial estimates of the excess of purchase price over the fair value of net assets acquired in the 2001 acquisition and in the 2000 acquisitions were approximately \$19 million and \$216 million, respectively. The allocation of purchase price to the fair value of assets acquired and liabilities assumed in these acquisitions is as follows:

	2001	2000
Current Assets (net of cash acquired)	\$ 10	\$ 63
Property, Plant and Equipment	11	17
Cost in excess of net assets acquired	19	216
Current Liabilities	(10)	(51)
Total	\$ 30	\$ 245

At December 31, 2001 and 2000, Current Assets includes \$77 million and \$70 million, respectively, of Costs and Earnings in Excess of Billings on uncompleted contracts and Current Liabilities includes \$56 million and \$23 million, respectively, of Billings and Earnings in Excess of Costs on uncompleted contracts.

AmerGen Energy Company, LLC

In August 2000, AmerGen Energy Company, LLC (AmerGen), a joint venture with British Energy, Inc., a wholly owned subsidiary of British Energy plc, (British Energy), completed the purchase of Oyster Creek Nuclear Generating Facility (Oyster Creek) from GPU, Inc. (GPU) for \$10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs of \$89 million, including the cost of fuel, for a refueling outage that occurred in 2000. AmerGen is repaying these costs to GPU in equal annual installments through 2009. In addition, AmerGen assumed full responsibility for the ultimate decommissioning of Oyster Creek. At the closing of the sale, GPU provided funding for the decommissioning trust of \$440 million. In conjunction with this acquisition, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission Oyster Creek discounted to net present value using the NRC's mandated rate of 2%. AmerGen believes that the amount of the trust fund and investment earnings thereon will be sufficient to meet its decommissioning obligation. GPU is purchasing the electricity generated by Oyster Creek pursuant to a three-year power purchase agreement.

4. Corporate Restructuring

During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO. As part of the restructuring, the generation-related operations and assets and liabilities of ComEd were transferred to Generation. Also, as part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing PECO's generation and enterprises business segments, were transferred to Generation and Enterprises, respectively. Additionally, certain operations and assets and liabilities of ComEd and PECO were transferred to Exelon Business Services Company (BSC).

## 5. Accounting Changes

On January 1, 2001, Exelon recognized a non-cash gain of \$12 million, net of income taxes, in earnings and deferred a non-cash gain of \$44 million, net of income taxes, in Accumulated Other Comprehensive Income, a component of shareholders' equity, to reflect the adoption of SFAS No. 133, as amended.

During the fourth quarter of 2000, as a result of the synchronization of accounting policies with Unicom in connection with the Merger, PECO changed its method of accounting for nuclear outage costs to record such costs as incurred. Previously, PECO accrued these costs over the operating unit cycle. As a result of the change in accounting method for nuclear outage costs, PECO recorded income of \$24 million, net of income taxes of \$16 million. The change is reported as a cumulative effect of a change in accounting principle on the Consolidated Statements of Income as of December 31, 2000, representing the balance of the nuclear outage cost reserve at January 1, 2000.

## 6. Regulatory Issues

### ComEd

In 2001, the phased process to implement competition in the electric industry continued as mandated by the requirements of the Illinois restructuring legislation.

Customer Choice As of December 31, 2000, all non-residential customers were eligible to choose a new electric supplier or elect the power purchase option which allows the purchase of electric energy from ComEd at market-based prices. ComEd's residential customers become eligible to choose a new electric supplier in May 2002. As of December 31, 2001, approximately 18,700 non-residential customers, representing approximately 22% of ComEd's annual retail kilowatt-hour sales, had elected to purchase their electric energy from an alternate electric supplier or had chosen the power purchase option. Customers who receive energy from an alternative supplier continue to pay a delivery charge. ComEd is unable to predict the long term impact of customer choice on results of operations.

Rate Reductions and Return on Common Equity Threshold The Illinois restructuring legislation provided a 15% residential base rate reduction effective August 1, 1998 with an additional 5% residential base rate reduction effective October 1, 2001. ComEd's operating revenues were reduced by approximately \$24 million in 2001 due to the 5% residential rate reduction. Notwithstanding the rate reductions and subject to certain earnings tests, a rate freeze is generally in effect until at least January 1, 2005. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois legislation, if the earned return on common equity of a utility during this period exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the 30-Year Treasury Bond rate plus 8.5% in the years 2000 through 2004. Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with GAAP and reflect the amortization of regulatory assets and goodwill. As a result of the Illinois legislation, at December 31, 2001, ComEd had a regulatory asset with an unamortized balance of \$277 million that it expects to fully recover and amortize by the end of 2004. Consistent with the provisions 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 earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. ComEd did not trigger the earnings sharing provision in 2000 or 2001 and does not currently expect to trigger the earnings sharing provisions in the years 2002 through 2004.

PECO

In 2001, the phased process to implement competition in the electric industry continued as mandated by the requirements of the PUC's Final Restructuring Order.

**Customer Choice** The PUC's Final Restructuring Order provided for the phase-in of customer choice of electric generation supplier (EGS) for all customers and as of January 1, 2000 all customers were eligible for customer choice. The Final Restructuring Order also established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a PECO affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including residential customers assigned to an EGS as a provider of last resort default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process. On January 1, 2001, the 35% threshold was met for all three customer classes as a result of agreements assigning customers to New Power Company and Green Mountain as providers of last resort default service. During 2001, PECO experienced an increase in the number of customers selecting or returning to PECO as their EGS and at December 31, 2001, approximately 28% of PECO's residential load, 6% of its small commercial and industrial load and 5% of its large commercial and industrial load were purchasing generation from an alternative generation supplier. Customers who purchase energy from an EGS continue to pay a delivery charge.

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

On March 16, 2000, the PUC issued an order authorizing PECO to securitize up to an additional \$1 billion of its authorized stranded costs recovery. In accordance with the terms of that order, PECO provided its retail customers with rate reductions of \$60 million for calendar year 2001 only.

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

7. Supplemental Financial Information

Supplemental Income Statement Information

	For the Years Ended December 31,		
	2001	2000	1999
-----			
Taxes Other Than Income			
Utility	\$ 342	\$ 196	\$ 155
Real estate	140	68	72
Payroll	81	41	28
Other	60	17	7
-----			
Total	\$ 623	\$ 322	\$ 262
=====			
Other, Net			
Investment income	\$ 47	\$ 64	\$ 52
Gain (loss) on disposition of assets, net	4	(19)	(1)
Settlement of power purchase agreement	--	6	--
AFUDC, equity and borrowed	18	3	4
Other	10	(1)	4
-----			
Total	\$ 79	\$ 53	\$ 59
=====			

## Supplemental Cash Flow Information

	For the Years Ended December 31,		
	2001	2000	1999
Cash paid during the year:			
Interest (net of amount capitalized)	\$ 963	\$ 519	\$ 350
Income taxes (net of refunds)	\$ 749	\$ 272	\$ 304
Non-cash investing and financing:			
Regulatory Asset Fair Value Adjustment	\$ 347	--	--
Purchase Accounting Estimate Adjustments	\$ (85)	--	--
Issuance of Exelon Shares for Unicom	--	\$ 5,310	--
Issuance of InfraSource stock	\$ 35	\$ 14	\$ 11
Depreciation and amortization:			
Property, plant and equipment	\$ 702	\$ 325	\$ 207
Nuclear fuel	393	149	104
Regulatory assets	445	53	--
Decommissioning	144	46	29
Goodwill	150	34	1
Leased property	--	--	17
<b>Total Depreciation and Amortization</b>	<b>\$ 1,834</b>	<b>\$ 607</b>	<b>\$ 358</b>

## Supplemental Balance Sheet Information

## Investments

	December 31,	
	2001	2000
Investment in Sithe	\$ 725	\$ 704
Direct financing leases	427	409
Energy services and other ventures	161	170
Communication ventures	116	97
Investment in AmerGen	113	44
Affordable housing projects	98	88
Investment in subsidiaries and joint ventures	26	34
<b>Total</b>	<b>\$ 1,666</b>	<b>\$ 1,546</b>

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

	December 31,	
	2001	2000
Total minimum lease payments	\$ 1,492	\$ 1,492
Less: Unearned income	1,065	1,083
<b>Net investment in direct financing leases</b>	<b>\$ 427</b>	<b>\$ 409</b>



Regulatory Assets

	December 31,	
	2001	2000
Competitive transition charge	\$ 4,947	\$ 5,218
Recoverable deferred income taxes (see Note 15)	701	632
Nuclear decommissioning costs for retired plants	310	719
Recoverable transition costs	277	385
Loss on reacquired debt	112	99
Compensated absences	5	4
Non-pension postretirement benefits	71	78
Long-Term Regulatory Assets	6,423	7,135
Deferred energy costs (current asset)	56	86
<b>Total</b>	<b>\$ 6,479</b>	<b>\$ 7,221</b>

At December 31, 2001 and 2000, the Competitive Transition Charge (CTC) includes the unamortized balance of \$4.5 billion and \$4.8 billion, respectively, of Intangible Transition Property (ITP) sold to PECO Energy Transition Trust (PETT), a wholly owned subsidiary of PECO, in connection with the securitization of PECO's stranded cost recovery. PETT financed its purchase of the ITP through the issuance of transition bonds. See Note 14 - Long-Term Debt. ITP represents the irrevocable right of PECO or its assignee to collect non-bypassable charges from customers to recover stranded costs. The CTC represents PECO's stranded costs that are recoverable through regulated rates. The CTC is recoverable over a twelve year period ending December 31, 2010 with a return on the unamortized balance of 10.75%.

8. Earnings Per Share

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

	2001	2000	1999
Average Common Shares Outstanding	320	202	196
Assumed Exercise of Stock Options	2	2	1
Average Dilutive Common Shares Outstanding	322	204	197

9. Accounts Receivable

Accounts receivable -- Customer at December 31, 2001 and 2000 included unbilled operating revenues of \$438 million and \$498 million, respectively. The allowance for uncollectible accounts at December 31, 2001 and 2000 was \$213 million and \$200 million, respectively.

Accounts receivable -- Other at December 31, 2001 and 2000 included demand notes receivable from a communications joint venture in the amount of \$153 million. The receivable has been adjusted for Exelon's share of this joint venture's operating losses incurred in excess of its investment. The notes bear interest at the Applicable Federal Rate, compounded semi-annually. The average interest rate on the notes receivable was 4.18% and 6.22% at December 31, 2001 and 2000, respectively. Interest income related to the notes receivable was \$6 million and \$10 million in 2001 and 2000, respectively.

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to \$225 million of designated accounts receivable until November 2005. At December 31, 2001, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$170 million interest in accounts receivable

which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - a Replacement of FASB Statement No. 125," and a \$55 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. See Note 14 - Long-Term Debt. PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the \$225 million interest, which, if not met, requires PECO to deposit cash in order to satisfy such requirements. At December 31, 2001 and 2000, PECO met this requirement and was not required to make any cash deposits.

10. Property, Plant and Equipment

A summary of property, plant and equipment by classification as of December 31, 2001 and 2000 is as follows:

Asset Category	2001	2000
Electric-Transmission and Distribution	\$ 10,156	\$ 9,447
Electric-Generation	4,344	4,044
Gas	1,281	1,181
Common	399	408
Nuclear Fuel	2,681	2,341
Construction Work in Progress	1,294	1,189
Leased Property	-	2
Other Property, Plant and Equipment	1,371	1,274
Total Property, Plant and Equipment	21,526	19,886
Less Accumulated Depreciation (including accumulated amortization of nuclear fuel of \$1,838 and \$1,445 in 2001 and 2000, respectively)	7,784	6,950
Property, Plant and Equipment, net	\$13,742	\$12,936

11. Jointly Owned Electric Utility Plant

Exelon's undivided ownership interests in jointly owned electric plant at December 31, 2001, were as follows:

Operator	Production Plant					Transmission and Other Plant Various Co.
	Peach Bottom Generation	Salem PSE&G Nuclear	Keystone Reliant	Conemaugh Reliant	Quad Cities Generation	
Participating Interest	50%	42.59%	20.99%	20.72%	75%	21 to 44%
Exelon's Share:						
Plant	\$ 387	\$ 12	\$ 121	\$ 193	\$ 96	\$ 66
Accumulated Depreciation	\$ 220	\$ 4	\$ 98	\$ 124	\$ 10	\$ 25
Construction Work in Progress	\$ 13	\$ 53	\$ 13	\$ 12	\$ 52	\$ 1

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

## 12. Nuclear Decommissioning and Spent Fuel Storage

Exelon has an obligation to decommission its nuclear power plants. Exelon's current estimate of its nuclear facilities' decommissioning cost for its owned nuclear power plants is \$7.2 billion in current year (2002) dollars. These expenditures are expected to occur after the plants retirement, estimated to begin in 2045. Decommissioning costs are currently recoverable through regulated rates. Under rates in effect through December 31, 2001, Exelon collected approximately \$102 million in 2001 from customers. At December 31, 2001 the decommissioning liability, recorded in Accumulated Depreciation and Deferred Credits and Other Liabilities on Exelon's Consolidated Balance Sheets, was \$2.7 billion and \$1.3 billion, respectively. At December 31, 2000 the decommissioning liability, recorded in Accumulated Depreciation and Deferred Credits and Other Liabilities on Exelon's Consolidated Balance Sheets, was \$2.6 billion and \$1.3 billion, respectively. In order to fund future decommissioning costs, at December 31, 2001 and 2000, Exelon held \$3.2 billion and \$3.1 billion, respectively, in trust accounts which are included as Investments in Exelon's Consolidated Balance Sheets at their fair market value. Exelon believes that the amounts being recovered from customers through regulated rates and earnings on nuclear decommissioning trust funds will be sufficient to fully fund its decommissioning obligations.

In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the power purchase agreements between ComEd and Generation. Under the ICC order, ComEd is permitted to recover \$73 million per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd can recover up to \$73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Generation. Under the ICC order, subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to customers. The amount of recovery in the ICC order is less than the \$84 million annual amount ComEd recovered in 2000. The ICC order is currently pending on appeal in the Illinois Appellate Court.

To account for the effects of the ICC order, in the first quarter of 2001 ComEd reduced its nuclear decommissioning regulatory asset to \$372 million, reflecting the reduction in expected probable future recoveries from customers through 2006. The reduction in the regulatory asset in the amount of \$347 million was recorded as an adjustment to the initial purchase price allocation relating to the asset and resulted in a corresponding increase in goodwill. Also, ComEd recorded an obligation to Generation of approximately \$440 million representing ComEd's legal requirement to remit funds to Generation for the remaining regulatory asset amount of \$372 million upon collection from customers, and for collections from customers prior to the establishment of external decommissioning trust funds in 1989 to be remitted to Generation for deposit into the decommissioning trusts through 2006. Unrealized gains and losses on decommissioning trust funds (based on the market value of the assets on the Merger date, in accordance with purchase accounting) had previously been recorded in accumulated depreciation or regulatory assets. As a result of the transfer of the ComEd nuclear plants to Generation and the ICC order limiting the regulated recoveries of decommissioning costs, net unrealized losses of \$23 million (net of income taxes) at that date were reclassified to accumulated other comprehensive income. All subsequent realized gains and losses on these decommissioning trust funds' assets are based on the cost basis of the trust fund assets established on the Merger date and are reflected in Other Income and Deductions in Exelon's Consolidated Statements of Income.

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

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998. In August 2001, the Court granted ComEd's motion for partial summary judgment for liability on ComEd's breach of contract claim. In November 2001 the Government filed two partial summary judgment motions relating to certain damage issues in the case as well as two motions to dismiss claims other than ComEd's breach of contract claim. The Court has deferred briefing on those motions pending completion of discovery on certain damage issues.

In July 2000, PECO entered into an agreement with the DOE relating to PECO's Peach Bottom nuclear generating unit to address the DOE's failure to begin removal of SNF in January 1998 as required by the Standard Contract. Under that agreement, the DOE agrees to provide PECO with credits against PECO's future contributions to the Nuclear Waste Fund over the next ten years to compensate PECO for SNF storage costs incurred as a result of the DOE's breach of the contract. The agreement also provides that, upon PECO's request, the DOE will take title to the SNF and the interim storage facility at Peach Bottom provided certain conditions are met. In November 2000, eight utilities with nuclear power plants filed a Joint Petition for Review against the DOE with the United States Court of Appeals for the Eleventh Circuit seeking to invalidate that portion of the agreement providing for credits to PECO against nuclear waste fund payments on the ground that such provision is a violation of the NWPA. PECO intervened as a defendant in that case, which is ongoing. In April 2001, an individual filed suit against the DOE with the United States District Court for the Middle District of Pennsylvania seeking to invalidate the agreement on the grounds that the DOE has violated the National Environmental Policy Act and the Administrative Procedure Act. PECO intervened as a defendant and moved to dismiss the complaint. The Court has not yet ruled on the motion to dismiss.

The Standard Contract with the DOE also requires that PECO and ComEd pay the DOE a one-time fee applicable to nuclear generation through April 6, 1983. PECO's fee has been paid. Pursuant to the Standard Contract, ComEd elected to pay the one-time fee of \$277 million, with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2001, the liability for the one-time fee with interest was \$843 million. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the corporate restructuring.

### 13. Notes Payable

	2001	2000	1999
Average borrowings	\$193	\$186	\$242
Average interest rates, computed on daily basis	4.01%	6.62%	5.62%
Maximum borrowings outstanding	\$599	\$500	\$728
Average interest rates, at December 31	2.63%	7.18%	6.80%

Exelon, ComEd, PECO and Generation entered into a \$1.5 billion 364 day unsecured revolving credit facility on December 12, 2001 with a group of banks. This credit facility is used principally to support the commercial paper programs of Exelon, ComEd and PECO. At December 31, 2001 and 2000, the amount of commercial paper outstanding was \$360 million and \$161 million, respectively. Interest rates on the advances from the credit facility are based on the London Interbank Offering Rate (LIBOR) as of the date of the advance.

In October 2000, Exelon obtained a \$1.25 billion term loan due June 30, 2001 to finance the cash consideration paid to former holders of Unicom common stock in connection with the Merger and to finance the purchase of its 49.9% interest in Sithe in December 2000. On December 31, 2000, Exelon had \$1,210 million outstanding on the term loan which is also reflected in Notes Payable on the Consolidated Balance Sheets. This term loan was refinanced with long-term debt in the second quarter of 2001. The average interest rate on this term loan for the period it was outstanding in 2001 and 2000 was 6.4% and 7.6%, respectively.

14. Long-Term Debt

			at December 31,	
	Rates	Maturity Date	2001	2000
ComEd Transitional Trust Notes				
Series 1998-A:	5.00%-6.00%	2002-2008	\$ 2,380	\$ 2,720
PETT Bonds Series 1999-A:				
Fixed rates	5.63%-6.13%	2003-2008 (a)	2,561	2,706
Floating rates	5.081%-6.52%	2004-2007 (a)	327	1,132
PETT Bonds Series 2000-A:	7.3%-7.65%	2002-2009 (a)	890	1,000
PETT Bonds Series 2001:	6.52%	2010 (a)	805	--
First and Refunding Mortgage Bonds (b) (c):				
Fixed rates	4.00%-10.00%	2002-2023	3,942	4,260
Floating rates	1.46%-1.62%	2012	154	154
Notes payable	6.75%-9.20%	2002-2020	2,647	1,459
Pollution control notes:				
Fixed rates	5.875%	2007	44	46
Floating rates	1.59%-2.45%	2009-2034	583	461
Notes payable - accounts receivable agreement	5.625%-10.25%	2005	55	40
Sinking fund debentures	3.125%-4.75%	2004-2011	23	27
Total Long-Term debt (d)			14,411	14,005
Unamortized debt discount and premium, net			(129)	(139)
Due within one year			(1,406)	(908)
Long-Term debt			\$12,876	\$ 12,958

- (a) The maturity date represents the expected final payment date which is the date when all principal and interest of the related class of transition bonds is expected to be paid in full in accordance with the expected amortization schedule for the applicable class. The date when all principal and interest must be paid in full for the PETT Bonds Series 1999-A, 2000-A and 2001-A are 2003 through 2009, 2003 through 2010 and 2010, respectively. The current portion of transition bonds is based upon the expected maturity date.
- (b) Utility plant of ComEd and PECO is subject to the liens of their respective mortgage indentures.
- (c) Includes first mortgage bonds issued under the ComEd and PECO mortgage indentures securing pollution control notes.
- (d) Long-term debt maturities in the period 2002 through 2006 and thereafter are as follows:

2002	\$ 1,406
2003	1,391
2004	896
2005	1,308
2006	1,268
Thereafter	8,142
Total	\$14,411

In 2001, ComEd entered into forward starting interest rate swaps with an aggregate notional amount of \$250 million to manage interest rate exposure associated with the anticipated \$400 million refinancing of ComEd First Mortgage Bonds. ComEd also entered into an interest rate swap agreement with a notional amount of \$235 million to effectively convert fixed rate debt to floating rate debt.

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

In 1998, PECO entered into treasury forwards and forward starting interest rate swaps to manage interest rate exposure associated with the anticipated issuance of the Series 1999-A Transition Bonds. On March 18, 1999, these instruments were settled with net proceeds of \$80 million to PECO which were deferred and are being amortized over the life of the Series 1999-A Transition Bonds as a reduction of interest expense.

In connection with the refinancing of a portion of the two floating rate series of transition bonds in the first quarter of 2001, PECO settled \$318 million of a forward starting interest rate swap resulting in a \$6 million gain which is reflected in other income and deductions due to the transaction no longer being probable. Also, in connection with the refinancing, PECO settled a portion of the interest rate swaps and the remaining portion of the forward starting interest rate swaps resulting in gains of \$25 million, which were deferred and are being amortized over the expected remaining lives of the related debt.

At December 31, 2001 and 2000, the aggregate unamortized net gain on the settlement of PECO transactions was \$55 million and \$51 million, respectively.

Prepayment premiums of \$39 million, offset by unamortized issuance premiums of \$17 million, associated with the early retirement of debt in 2001 have been deferred in regulatory assets and will be amortized to interest expense over the life of the related new debt issuance consistent with regulatory recovery. In 2000 and 1999, Exelon incurred extraordinary charges aggregating \$6 million (\$4 million, net of tax) and \$62 million (\$37 million, net of tax), respectively for prepayment premiums and the write-offs of unamortized deferred financing costs associated with the early retirement of debt.

#### 15. Income Taxes

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

	For the Years Ended December 31,		
	2001	2000	1999
-----			
Included in operations:			
Federal			
Current	\$ 880	\$ 163	\$ 293
Deferred	(61)	163	6
Investment tax credit, net	(14)	(15)	(14)
State			
Current	119	--	72
Deferred	7	30	1
	-----	-----	-----
	\$ 931	\$ 341	\$ 358
=====			
Included in extraordinary item:			
Federal			
Current	\$ --	\$ (2)	\$ (19)
State			
Current	--	--	(6)
	-----	-----	-----
	\$ --	\$ (2)	\$ (25)
=====			
Included in cumulative effects of changes in accounting principles:			
Federal			
Deferred	\$ 6	\$ 13	\$ --
State			
Deferred	2	3	--
	-----	-----	-----
	\$ 8	\$ 16	\$ --
=====			

The effective income tax rate varies from the U.S. Federal statutory rate for the years ended December 31 principally due to the following:

	For the Years Ended December 31,		
	2001	2000	1999
U.S. Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
Property basis differences	(0.2)	0.1	(0.8)
State income taxes, net of Federal income tax benefit	3.4	2.1	4.8
Amortization of investment tax credit	(0.5)	(1.6)	(1.5)
Amortization of goodwill	1.9	0.9	--
Prior period income taxes	(0.3)	0.4	(0.7)
Dividends on PECO Preferred Stock	0.2	0.4	0.4
Other, net	0.2	0.3	(0.1)
Effective income tax rate	39.7%	37.6%	37.1%

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

	2001	2000
Deferred tax liabilities:		
Plant basis difference	\$ 5,116	\$ 4,535
Deferred gain on like-kind exchange	453	466
Deferred investment tax credit	222	330
Deferred debt refinancing costs	44	48
Other, net	63	5
Total deferred tax liabilities	5,898	5,384
Deferred tax assets:		
Decommissioning and decontamination obligations	(898)	--
Deferred pension and postretirement obligations	(382)	(437)
Other, net	(22)	(270)
Total deferred tax assets	(1,302)	(707)
Deferred income taxes (net) on the balance sheet	\$ 4,596	\$ 4,677

Prior to 2001, the offsetting deferred tax assets and liabilities resulting from decommissioning and decontamination assets and obligations, accounted for as regulatory assets and liabilities, were recorded within the plant basis difference caption above. As a result of the corporate restructuring, on January 1, 2001, the decommissioning and decontamination obligations were transferred to Generation, an unregulated subsidiary; however the regulatory asset related to decommissioning and decontamination remained with ComEd as a receivable from its regulated customers. The deferred tax liability relating to the regulatory asset is reflected in the plant basis difference caption, however, the deferred tax asset related to the decommissioning and decontamination obligation is no longer recorded in the plant basis difference caption with the regulatory assets and liabilities.

In accordance with regulatory treatment of certain temporary differences, Exelon has recorded a regulatory asset for recoverable deferred income taxes of \$701 million and \$632 million at December 31, 2001 and 2000, respectively. These recoverable deferred income taxes include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the ratemaking policies of the ICC and PUC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates.

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

16. Retirement Benefits

Exelon sponsors defined benefit pension plans and postretirement welfare benefit plans applicable to essentially all ComEd, PECO, Generation and BSC employees and certain employees of Enterprises. In 2001, Exelon consolidated the former Unicom and PECO plans into Exelon plans. Essentially all management employees, and electing union employees, hired on or after January 1, 2001 participate in newly established cash balance pension plans. Management employees who were active participants in the former Unicom and PECO pension plans on December 31, 2000, and remain employed by Exelon on January 1, 2002, will have the opportunity to continue to participate in the pension plan or to transfer to the cash balance plan. Benefits under Exelon's pension plans generally reflect each employee's compensation, years of service and age at retirement. Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended. The following tables provide a reconciliation of benefit obligations, plan assets and funded status of the plans.

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
<b>Change in Benefit Obligation:</b>				
Net benefit obligation at beginning of year	\$ 6,695	\$ 2,054	\$ 2,275	\$ 798
Service cost	94	39	42	24
Interest cost	498	219	161	83
Plan participants' contributions	--	--	4	1
Plan amendments	44	--	(191)	--
Actuarial (gain)loss	254	228	173	144
Acquisitions	--	4,231	--	1,228
Curtailments/Settlements	(38)	(74)	--	4
Special accounting costs	48	217	3	48
Gross benefits paid	(494)	(219)	(136)	(55)
Net benefit obligation at end of year	\$ 7,101	\$ 6,695	\$ 2,331	\$ 2,275
<b>Change in Plan Assets:</b>				
Fair value of plan assets at beginning of year	\$ 7,000	\$ 2,982	\$ 1,188	\$ 244
Actual return on plan assets	(265)	173	(14)	(7)
Employer contributions	38	2	90	84
Plan participants' contributions	--	--	4	1
Acquisitions	--	4,062	--	921
Gross benefits paid	(494)	(219)	(136)	(55)
Fair value of plan assets at end of year	\$ 6,279	\$ 7,000	\$ 1,132	\$ 1,188
Funded status at end of year	\$ (822)	\$ 305	\$ (1,199)	\$ (1,087)
Miscellaneous adjustment	--	--	--	5
Unrecognized net actuarial (gain)loss	397	(777)	440	143
Unrecognized prior service cost	108	77	(191)	--
Unrecognized net transition obligation (asset)	(17)	(21)	103	122
Net amount recognized at end of year	\$ (334)	\$ (416)	\$ (847)	\$ (817)



	Pension Benefits Other			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Weighted-average assumptions as of December 31,						
Discount rate	7.35%	7.60%	8.00%	7.35%	7.60%	8.00%
Expected return on plan assets	9.50%	9.50%	9.50%	9.50%	8.00%	8.00%
Rate of compensation increase	4.00%	4.30%	5.00%	4.00%	4.30%	5.00%
Health care cost trend on covered charges	N/A	N/A	N/A	10.00% decreasing to ultimate trend of 4.5% in 2008	7.00% decreasing to ultimate trend of 5.0% in 2005	8.00% decreasing to ultimate trend of 5.0% in 2006
Components of net periodic benefit cost (benefit):						
Service cost	\$ 94	\$ 39	\$ 29	\$ 42	\$ 24	\$ 19
Interest cost	498	219	154	161	83	57
Expected return on assets	(625)	(316)	(222)	(99)	(34)	(16)
Amortization of:						
Transition obligation (asset)	(4)	(4)	(4)	10	12	12
Prior service cost	9	7	5	(9)	--	--
Actuarial (gain) loss	(25)	(26)	(8)	1	--	--
Curtailment charge (credit)	(12)	(12)	--	9	24	--
Settlement charge (credit)	(9)	(16)	--	--	--	--
Net periodic benefit cost (benefit)	\$ (74)	\$ (109)	\$ (46)	\$ 115	\$ 109	\$ 72
Special accounting costs	\$ 48	\$ 217	\$ --	\$ 3	\$ 48	\$ --

Sensitivity of retiree welfare results

Effect of a one percentage point increase in assumed health care cost trend on total service and interest cost components	\$ 33
on postretirement benefit obligation	\$ 276
Effect of a one percentage point decrease in assumed health care cost trend on total service and interest cost components	\$ (28)
on postretirement benefit obligation	\$ (239)

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

Special accounting costs of \$48 million in 2001 represent accelerated separation and enhancement benefits provided to PECO employees expected to be terminated as a result of the Merger. Special accounting costs in 2000 of \$217 million represented PECO's accelerated separation and enhancement benefits of \$96 million and ComEd's accelerated liability increase of \$121 million inclusive of \$96 million for separation benefits and \$25 million for plan enhancements.

Exelon provides certain health care and life insurance benefits for retired employees. In 2001, Exelon adopted an amendment to the former Unicom postretirement medical benefit plan that changed the eligibility requirement of the plan to cover only employees who retire with 10 years of service after age 45 rather than with 10 years of service and having attained the age of 55. Welfare benefits for active employees are provided by several insurance policies or self-funded plans whose premiums or contributions are based upon the benefits paid during the year.

Additionally, Exelon sponsors nonqualified supplemental retirement plans which cover any excess pension benefits that would be payable to management employees under the qualified plan but which are limited by the Internal Revenue Code. The fair value of plan assets excludes \$58 million held in trust as of December 31, 2001 for the payment of benefits under the supplemental plan and \$8 million held in trust as of December 31, 2001 for the payment of postretirement medical benefits.

Exelon sponsors savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pretax income in accordance with specified guidelines. Exelon matches a percentage of the employee contribution up to certain limits. The cost of Exelon's matching contribution to the savings plans totaled \$57 million, \$17 million and \$7 million in 2001, 2000 and 1999, respectively.

#### 17. Preferred Securities of Subsidiaries

##### Preferred and Preference Stock

At December 31, 2001 and 2000, Series Preference Stock of PECO, no par value, consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 2001 and 2000, cumulative Preferred Stock of PECO, no par value, consisted of 15,000,000 shares authorized and the amounts set forth below:

	Current Redemption Price(a)	at December 31,			
		2001	2000	2001	2000
		Shares Outstanding		Dollar Amount	
Series (without mandatory redemption)					
\$4.68	\$ 104.00	150,000	150,000	\$ 15	\$ 15
\$4.40	112.50	274,720	274,720	27	27
\$4.30	102.00	150,000	150,000	15	15
\$3.80	106.00	300,000	300,000	30	30
\$7.48	(b)	500,000	500,000	50	50
		1,374,720	1,374,720	137	137
Series (with mandatory redemption)					
\$6.12	(c)	185,400	370,800	19	37
Total preferred stock		1,560,120	1,745,520	\$ 156	\$ 174

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

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

(c) PECO made the annual sinking fund payments of \$18.5 million on August 1, 2001 and August 2, 2000. The future sinking fund requirement in 2002 is \$18.5 million.

At December 31, 2001, ComEd Prior Preferred Stock and ComEd Preference Stock consisted of 850,000 and 6,810,451 shares authorized, respectively, none of which were outstanding.

Company Obligated Mandatorily Redeemable Preferred Securities At December 31, 2001 and 2000, subsidiary trusts of PECO and ComEd had outstanding the following preferred securities:

	Mandatory Redemption Date	Distribution Rate	Liquidation Value	----- at December 31, -----			
				2001 Trust Securities	2000 Outstanding	2001 Dollar	2000 Amount
PECO Energy Capital Trust II	2037	8.00%	\$ 25	2,000,000	2,000,000	\$ 50	\$ 50
PECO Energy Capital Trust III	2028	7.38%	1,000	78,105	78,105	78	78
<b>Total</b>				<b>2,078,105</b>	<b>2,078,105</b>	<b>\$ 128</b>	<b>\$ 128</b>
ComEd Financing I	2035	8.48%	\$ 25	8,000,000	8,000,000	\$ 200	200
ComEd Financing II	2027	8.50%	1,000	150,000	150,000	150	150
Unamortized Discount						(21)	(22)
<b>Total</b>				<b>8,150,000</b>	<b>8,150,000</b>	<b>\$ 329</b>	<b>\$ 328</b>

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

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

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

#### 18. Common Stock

At December 31, 2001 and 2000, common stock without par value consisted of 600,000,000 and 600,000,000 shares authorized and 321,006,904 and 319,005,112 shares outstanding, respectively.

#### Stock Repurchase

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

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

Stock-Based Compensation Plans

Exelon maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees and previously maintained a broad-based incentive program for certain other employees. The types of long-term incentive awards that have been granted under the LTIP are non-qualified options to purchase shares of Exelon's common stock and common stock awards. At December 31, 2001, there were 9,000,000 options authorized for issuance under the LTIP and 2,000,000 options authorized under the broad-based incentive program. Exelon uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). If Exelon elected to account for its stock-based compensation plans based on SFAS No. 123, it would have recognized compensation expense of \$7 million, \$60 million and \$10 million, for 2001, 2000 and 1999, respectively. In addition, net income would have been \$1,421 million, \$526 million and \$560 million for 2001, 2000 and 1999, respectively, and earnings per share would have been \$4.41, \$2.58 and \$2.84 for 2001, 2000 and 1999, respectively.

The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Options granted under the LTIP and the broad-based incentive program become exercisable upon attainment of a target share value and/or time. All options expire 10 years from the date of grant. Information with respect to the LTIP and the broad-based incentive program at December 31, 2001 and changes for the three years then ended, is as follows:

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	2001	(per share) 2001	2000	(per share) 2000	1999	(per share) 1999
Balance at January 1	15,287,859	42.13	6,065,897	\$ 31.91	4,663,008	\$ 27.71
Options granted/assumed	629,200	66.42	11,089,051 (a)	46.09	2,049,789	39.32
Options exercised	(1,695,474)	34.84	(1,725,058)	31.79	(568,000)	25.17
Options canceled	(181,589)	52.64	(142,031)	39.95	(78,900)	38.14
Balance at December 31	14,039,996	43.96	15,287,859	42.13	6,065,897	31.91
Exercisable at December 31	8,006,193	38.75	4,953,942	30.04	3,331,903	25.60
Weighted average fair value of options granted during year		\$ 19.59		\$ 16.62		\$ 8.24

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

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999, respectively:

	2001	2000	1999
Dividend yield	3.2%	3.6%	5.7%
Expected volatility	36.8%	36.8%	30.5%
Risk-free interest rate	4.9%	5.9%	5.9%
Expected life (years)	5.0	5.0	9.5

At December 31, 2001, the options outstanding, based on ranges of exercise prices, were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10.01-\$20.00	597,400	6.14	\$19.68	597,400	\$19.68
\$20.01-\$30.00	1,639,611	4.40	25.03	1,639,611	25.03
\$30.01-\$40.00	5,395,604	7.54	37.85	3,069,046	37.63
\$40.01-\$50.00	1,438,206	7.43	41.56	1,023,557	41.21
\$50.01-\$60.00	4,332,775	8.82	59.46	1,669,077	59.49
\$60.01-\$70.00	636,400	9.04	67.30	7,502	64.97
<b>Total</b>	<b>14,039,996</b>			<b>8,006,193</b>	

Under Exelon's LTIP 195,725 shares and 120,300 shares of common stock awards were issued during 2000 and 1999, respectively. Vesting for the common stock awards is over a period not to exceed 10 years from the grant date. Compensation cost of \$14 million associated with these awards is amortized to expense over the vesting period. The related accumulated amortization was approximately \$12 million, \$7 million and \$2 million at December 31, 2001, 2000 and 1999, respectively.

Additionally under Exelon's LTIP, 426,794 and 159,129 Exelon common share awards were granted during 2001 and 2000, respectively. Compensation cost of \$30 million is to be accrued to expense over the vesting period of up to 5 years from the date of the grant. The related accumulated amortization was approximately \$17 million and \$6 million at December 31, 2001 and 2000, respectively.

In June 2001, the Board of Directors of Exelon approved the Employee Stock Purchase Plan (ESPP). The purpose of the ESPP is to provide employees of Exelon, and its subsidiary companies the right to purchase shares of Exelon's common stock at below-market prices. A total of 5,000,000 shares of Exelon's common stock have been reserved for issuance under the ESPP. Employees' purchases are limited to no more than 125 shares per quarter and no more than \$25,000 in fair market value in any plan year. During 2001, employees purchased 137,648 shares of Exelon common stock under the ESPP.

19. Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of Exelon's financial assets and liabilities as of December 31, 2001 and 2000 were as follows:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives:				
Liabilities				
Long-term debt (including amounts due within one year)	\$ 14,282	\$ 14,912	\$ 13,866	\$ 14,336
Preferred Securities of Subsidiaries	613	572	630	601
Derivatives:				
Interest rate swaps	(20)	(20)	--	(19)
Forward interest rate swaps	(1)	(1)	--	40
Energy derivatives	92	92	(34)	(34)

Cash and cash equivalents, customer accounts receivable and trust accounts for decommissioning nuclear plants are recorded at their fair value.

As of December 31, 2001 and 2000, Exelon's carrying amounts of cash and cash equivalents and accounts receivable are representative of fair value because of the short-term nature of these instruments. Fair values of the trust accounts for decommissioning nuclear plants, long-term debt and preferred securities of subsidiaries are estimated based on quoted market prices for the same or similar issues. The fair value of Exelon's interest rate swaps and power purchase and sale contracts is determined using quoted exchange prices, external dealer prices, or internal valuation models which utilize assumptions of future energy prices and available market pricing curves.

Financial instruments that potentially subject Exelon to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. Exelon places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to Exelon's large number of customers and their dispersion across many industries.

Exelon has entered into interest rate swaps and forward-starting interest rate swaps to manage interest rate exposure in the aggregate notional amount of \$576 million. These swaps have been designated as cash-flow hedges under SFAS No. 133, and as such, as long as the hedge remains effective and the underlying transaction remains probable, changes in the fair value of these swaps will be recorded in accumulated other comprehensive income (loss) until earnings are affected by the variability of the cash flows being hedged.

Exelon has also entered into an interest rate swap to lock in the value of a \$235 million fixed-rate obligation of ComEd. This swap has been designated as a fair-value hedge, as defined in SFAS No. 133 and as such, changes in the fair value of the swap will be recorded in earnings. However, as long as the hedge remains effective and the underlying transaction remains probable, changes in the fair value of the swap 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.

The notional amount of derivatives do not represent amounts that are exchanged by the parties and, thus, are not a measure of Exelon's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates.

Exelon utilizes derivatives to manage the utilization of its available generating capacity and provision of wholesale energy to its affiliates. Exelon also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Exelon enters into certain energy-related derivatives for trading or speculative purposes.

Exelon would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The credit exposure of derivatives contracts is represented by the fair value of contracts at the

reporting date. Exelon's interest rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached. The majority of power purchase and sale contracts are documented under master netting agreements.

On January 1, 2001, Exelon recognized a non-cash gain of \$12 million, net of income taxes, in earnings and deferred a non-cash gain of \$44 million, net of income taxes, in accumulated other comprehensive income, a component of shareholders' equity, to reflect the initial adoption of SFAS No. 133, as amended. SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges.

During 2001, Exelon recognized net gains of \$16 million (\$10 million, net of income taxes) relating to mark-to-market (MTM) adjustments of certain non-trading power purchase and sale contracts pursuant to SFAS No. 133. MTM adjustments on power purchase contracts are reported in fuel and purchased power and MTM adjustments on power sale contracts are reported as Operating Revenues in the Consolidated Statements of Income. During 2001, Exelon recognized net gains aggregating \$14 million (\$10 million, net of income taxes) on derivative instruments entered into for trading purposes. Exelon commenced financial trading in the second quarter of 2001. Gains and losses associated with financial trading are reported as Other Income and Deductions in the Consolidated Statements of Income. During 2001, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted energy commodity transactions no longer being probable. For 2001, a \$6 million gain (\$4 million, net of income taxes) was reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable.

As of December 31, 2001, \$65 million of deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months. Amounts in accumulated other comprehensive income related to interest rate cash flows are reclassified into earnings when the forecasted interest payment occurs. Amounts in accumulated other comprehensive income related to energy commodity cash flows are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs. The majority of Exelon's cash flow hedges are expected to settle within the next 3 years.

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

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	\$ 1,666	\$ 130	\$ (236)	\$ 1,560
Debt securities				
Government obligations	882	28	(3)	907
Other debt securities	701	16	(19)	698
Total debt securities	1,583	44	(22)	1,605
Total available-for-sale securities	\$ 3,249	\$ 174	\$ (258)	\$ 3,165

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	\$ 1,702	\$ 144	\$ (180)	\$ 1,666
Debt securities				
Government obligations	932	40	--	972
Other debt securities	470	8	(7)	471
Total debt securities	1,402	48	(7)	1,443
Total available-for-sale securities	\$ 3,104	\$ 192	\$ (187)	\$ 3,109

Net unrealized losses of \$84 million and gains of \$5 million were recognized in Accumulated Depreciation, Regulatory Assets and Accumulated Other Comprehensive Income in Exelon's Consolidated Balance Sheets at December 31, 2001 and 2000, respectively.

	For the Years December 31	
	2001	2000
Proceeds from sales	\$ 1,624	\$ 265
Gross realized gains	76	9
Gross realized losses	(189)	(46)

Net realized gains of \$14 million and net realized losses of \$37 million were recognized in Accumulated Depreciation and Regulatory Assets in Exelon's Consolidated Balance Sheets at December 31, 2001 and 2000, respectively and \$127 million of net realized losses was recognized in Other Income and Deductions in Exelon's Consolidated Income Statements for 2001.

The available-for-sale securities held at December 31, 2001 have an average maturity of eight to ten years. The cost of these securities was determined on the basis of specific identification. See Note 12 - Nuclear Decommissioning and Spent Fuel Storage for further information regarding the nuclear decommissioning trusts.

## 20. Commitments and Contingencies

### Capital Commitments

In December 2001, Generation agreed to purchase two generation plants located in the Dallas-Fort Worth metropolitan area from TXU Corp. (TXU) to expand its presence in the Texas region. The \$443 million purchase of the two natural-gas and oil-fired plants, to be funded through available cash and commercial paper proceeds, will add approximately 2,300 megawatts (MW) capacity. The transaction includes a power purchase agreement for TXU to purchase power during the months of May through September from 2002 through 2006. During the periods covered by the power purchase agreement, TXU will make fixed capacity payments and will provide fuel to Exelon in return for exclusive rights to the energy and capacity of the generation plants. The closing of the acquisition is contingent upon receipt of the necessary regulatory approvals and is anticipated to occur in the first quarter of 2002. Also, Exelon has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2002 and Exelon and British Energy have each agreed to provide up to \$100 million to AmerGen at any time for operating expenses.

### Nuclear Insurance

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

Exelon carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Exelon is required by the Nuclear Regulatory Commission (NRC) to maintain, to provide for decommissioning the facility. Exelon is unable to predict the timing of the availability of insurance proceeds to Exelon and the amount of such proceeds which would be available. Under the terms of the various insurance agreements, Exelon could be



assessed up to \$121 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of \$3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity, and any other source, applicable to such losses.

Additionally, through its subsidiaries, Exelon is a member of an industry mutual insurance company that provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Exelon's maximum share of any assessment is \$46 million per year. Recovery under this insurance for terrorist acts is subject to the \$3.2 billion aggregate limit and secondary to the property insurance described above.

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

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

#### Energy Commitments

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

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

Generation has power purchase arrangements (PPAs) with Midwest Generation, LLC (Midwest Generation) for the purchase of capacity from its coal fired stations, in declining amounts through 2004. Contracted capacity and capacity available through the exercise of an annual option are as follows (in megawatts):

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

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

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

At December 31, 2001, Exelon had long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others, including the Midwest Generation and AmerGen contracts, as expressed in the following tables:

	Capacity Purchases	Transmission Rights Purchases	Power Only Purchases	Power Only Sales
2002	\$ 1,005	\$ 139	\$ 551	\$ 1,803
2003	1,214	31	345	666
2004	1,222	15	346	219
2005	406	15	264	139
2006	406	5	250	58
Thereafter	3,657	--	2,321	22
<b>Total</b>	<b>\$ 7,910</b>	<b>\$ 205</b>	<b>\$ 4,077</b>	<b>\$ 2,907</b>

#### Environmental Issues

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

As of December 31, 2001 and 2000, Exelon had accrued \$156 million and \$172 million, respectively, for environmental investigation and remediation costs, including \$127 million and \$140 million, respectively, for MGP investigation and remediation, that currently can be reasonably estimated. Included in the environmental investigation and remediation cost obligation as of December 31, 2001 and 2000 is \$100 million and \$110 million, respectively, that has been recorded on a discount basis, (reflecting discount rates of 5.5%). Such estimates, reflecting the effects of a 3% inflation rate before the effects of discounting were \$154 million and \$170 million at December 31, 2001 and 2000, respectively. Exelon anticipates that payments related to the discounted environmental investigation and remediation costs, recorded on an undiscounted basis, of \$68 million will be incurred for the five-year period through 2006. Exelon cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by Exelon, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases

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

2002	\$ 82
2003	84
2004	68
2005	67
2006	61
Remaining years	628
-----	
Total minimum future lease payments	\$ 990
=====	

Rental expense under operating leases totaled \$75 million, \$41 million, and \$54 million in 2001, 2000 and 1999, respectively.

Litigation

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

Cotter Corporation Litigation. During 1989 and 1991, actions were brought in Federal and state courts in Colorado against ComEd and its subsidiary, Cotter Corporation (Cotter), seeking unspecified damages and injunctive relief based on allegations that Cotter permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by the plaintiffs, resulting in property damage and potential adverse health effects. In 1994, a Federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately \$6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was completed on June 28, 2001. The jury returned a verdict against Cotter and awarded \$16.3 million in various damages. On November 20, 2001, the District Court entered an amended final judgment which included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses which total \$43.3 million. This matter is being appealed by Cotter in the Tenth Circuit Court of Appeals. Cotter will vigorously contest the award.

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

On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of these actions, as well as any liability arising in connection with the West Lake Landfill discussed in the next paragraph. In connection with the corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred to Generation. Exelon's management believes adequate reserves have been established in connection with these proceedings.

The United States Environmental Protection Agency (EPA) has advised Cotter that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. Cotter is alleged to have disposed of approximately 39,000 tons of soils mixed with 8,700 tons of leached barium sulfate at the site. Cotter, along with three other companies identified by the EPA as potentially responsible parties (PRPs), is reviewing a draft feasibility study that recommends capping the site. The PRPs are also engaged in discussions with the State of Missouri and the EPA. The estimated costs of remediation for the site are \$10 to \$15 million. Once a final feasibility study is complete and a remedy selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Exelon cannot predict its share of the costs.

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

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

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

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 judgement that their rights under their contracts with ComEd were not affected by the amendment. On August 4, 1999, the Illinois Appellate Court held that the developers' claims against the state were premature, and the Illinois Supreme Court denied leave to appeal that ruling. Developers of both facilities have since filed amended complaints repeating their allegations that ComEd breached the contracts in question and requesting damages for such breach, in the amount of the difference between the state-subsidized rate and the amount ComEd was willing to pay for the electricity. ComEd is contesting this matter.

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

Enron. Exelon is an unsecured creditor in Enron Corp.'s (Enron) bankruptcy proceeding. Exelon's claim for power and other products sold to Enron in November and early December 2001 is \$8.5 million. Enron may assert that Exelon should not have closed out and terminated all of its forward contracts with Enron. If Enron is successful in this argument, Exelon's exposure could be greater than \$8.5 million. Exelon may also be subject to exposure due to the credit policies of ISO-operated spot markets that allocate defaults of market participants to non-defaulting participants. Exelon has established reserves for these matters.

As a result of Enron's bankruptcy, ComEd has potential monetary exposure for customers served by Enron Energy Services (EES), either as a billing agent or a third party supplier. EES is the billing agent for 366 of ComEd's customer accounts. On January 7, 2002, EES was authorized by the bankruptcy court to reject its contracts for 129 of these accounts. EES advised Exelon on January 10, 2002, that it will move to reject its contracts with the remaining 237 accounts during the week of January 14, 2002. Exelon is working to ensure that customers know what amounts are owed to ComEd, and is obtaining updated billing addresses for these accounts. As of January 8, 2002, approximately \$3.5 million in payments to Exelon were overdue and an additional \$1.8 million in charges is currently payable but not overdue. Therefore, Exelon's total amount outstanding with respect to the EES accounts is approximately \$5.3 million. Because that amount is owed to Exelon by individual customers, it is not part of the bankrupt Enron's estate.

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

21. Segment Information

Exelon evaluates the performance of its business segments based on Earnings Before Interest Expense and Income Taxes (EBIT).

Energy Delivery consists of the retail electricity distribution and transmission businesses of ComEd in northern Illinois and PECO in southeastern Pennsylvania and the natural gas distribution business of PECO located in the Pennsylvania counties surrounding the City of Philadelphia. Generation consists of electric generating facilities, energy marketing operations and Exelon's interests in Sithe and AmerGen. Enterprises consists of competitive retail energy sales, energy and infrastructure services, communications and other investments weighted towards the communications, energy services and retail services industries. An analysis and reconciliation of Exelon's business segment information to the respective information in the consolidated financial statements are as follows:

	Energy Delivery	Generation	Enterprises	Corporate	Intersegment Eliminations	Consolidated
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Total Revenues:						
2001	\$ 10,171	\$ 7,048	\$ 2,292	\$ 341	\$ (4,712)	\$ 15,140
2000	4,511	3,316	1,395	--	(1,723)	7,499
1999	3,265	2,411	644	--	(842)	5,478
Intersegment Revenues:						
2001	\$ 94	\$ 4,102	\$ 179	\$ 337	\$ (4,712)	\$ --
2000	24	1,227	472	--	(1,723)	--
1999	--	842	--	--	(842)	--
EBIT (a):						
2001	\$ 2,623	\$ 962	\$ (107)	\$ (22)	\$ --	\$ 3,456
2000 (b)	1,503	440	(140)	(328)	--	1,475
1999	1,372	379	(212)	(194)	--	1,345
Depreciation and Amortization:						
2001	\$ 1,081	\$ 282	\$ 69	\$ 17	\$ --	\$ 1,449
2000	297	126	35	--	--	458
1999	108	125	4	--	--	237
Capital Expenditures:						
2001	\$ 1,133	\$ 803	\$ 70	\$ 35	\$ --	\$ 2,041
2000	367	288	70	27	--	752
1999	205	245	1	40	--	491
Total Assets:						
2001	\$ 26,448	\$ 7,588	\$ 1,699	\$ (914)	\$ --	\$ 34,821
2000	27,613	5,734	2,277	(838)	--	34,786
1999	10,306	1,734	640	407	--	13,087
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(a) EBIT consists of operating income, equity in earnings (losses) of unconsolidated affiliates, and other income and expenses recorded in other, net with the exception of investment income. Investment income for 2001, 2000 and 1999 was \$47 million, \$64 million and \$52 million, respectively.

(b) Includes non-recurring items of \$276 million for Merger-related expenses in 2000.

Equity in losses of communications joint ventures and other investments of \$19 million, \$45 million and \$38 million for 2001, 2000 and 1999, respectively, are included in the Enterprises business unit's EBIT and equity losses of affordable housing investments of \$9 million for 2001 are included in Corporate's EBIT. Equity in earnings of AmerGen and Sithe of \$90 million and \$4 million for 2001 and 2000, respectively, are included in the Generation business unit's EBIT.

## 22. Related Party Transactions

In August 2001, Exelon loaned Sithe, an equity method investment of Generation, \$150 million. The note, which bore interest at the eurodollar rate, plus 2.25%, was repaid in December 2001 with the proceeds of bank borrowings. In connection with the bank borrowing, Exelon provided the lenders with a support letter confirming its investment in Sithe and Exelon's agreement to maintain a positive net worth of Sithe. Exelon recorded \$2 million of interest income on the note in 2001.

Generation has entered into PPAs dated December 18, 2001 and November 22, 1999 with AmerGen. Under the 2001 PPA, Exelon has agreed to purchase from AmerGen all the energy from TMI after December 31, 2001 through December 31, 2014. Under the 1999 PPA, Generation has agreed to purchase from AmerGen all of the residual energy from Clinton, through December 31, 2002. Currently, the residual output approximates 25% of the total output of Clinton. For the years ended December 31, 2001, 2000 and 1999 the amount of purchased power recorded in Fuel and Purchased Power in the Consolidated Statements of Income is \$57 million, \$52 million and \$0 million respectively. As of December 31, 2001 and 2000 Generation had a payable of \$3 million resulting from this PPA .

In addition, 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 by AmerGen on 90 days' notice. Generation is compensated for these services in an amount agreed to in the work order but not less than the higher of Exelon's fully allocated costs for performing the services or the market price. For the years ended December 31, 2001, 2000 and 1999 the amount charged to AmerGen for these services was \$80 million, \$32 million and \$1 million respectively. As of December 31, 2001 and 2000, Generation had a receivable of \$47 million and \$20 million respectively, resulting from these services.

## 23. Change in Accounting Estimate

Effective April 1, 2001, Exelon changed its accounting estimates related to the depreciation and decommissioning of certain generating stations. The estimated service lives were extended by 20 years for three nuclear stations, by periods of up to 20 years for certain fossil stations and by 50 years for a pumped storage station. Effective July 1, 2001, the estimated service lives were extended by 20 years for the remainder of Exelon's operating nuclear stations. These changes were based on engineering and economic feasibility studies performed by Exelon considering, among other things, future capital and maintenance expenditures at these plants. As a result of the change, net income for 2001 increased \$90 million (\$54 million, net of income taxes). At the end of the year, annualized savings resulting from the change would be \$132 million (\$79 million, net of income taxes).

24. Quarterly Data (Unaudited)

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

	Operating Revenues		Operating Income		Income (Loss) Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle		Net Income (Loss)	
	2001	2000	2001	2000 (a)	2001	2000	2001	2000
Quarter ended:								
March 31	\$3,823	\$1,353	\$889	\$352	\$387	\$167	\$399	\$191
June 30	3,651	1,385	792	309	315	119	315	116
September 30								
As initially reported	4,285	1,629	912	446	403	233	403	232
As amended (b)	4,285	1,629	912	446	376	233	376	232
December 31(c)	3,381	3,132	769	420	338	47	338	47

	Average Shares Outstanding (in millions)		Earnings per Share Before Extraordinary Items and Cumulative Effect of a Change in Accounting Principle		Earnings per Share Net Income	
	2001	2000	2001	2000	2001	2000
Quarter ended:						
March 31	320	181	\$1.21	\$0.92	\$1.25	\$1.05
June 30	321	174	0.98	0.69	0.98	0.67
September 30						
As initially reported	321	170	1.26	1.37	1.26	1.37
As amended (b)	321	170	1.17	1.37	1.17	1.37
December 31 (c)	320	283	1.06	0.17	1.06	0.17

- (a) Reflects a \$276 million charge (\$177 million, net of income taxes) for merger-related costs consisting of \$152 million of direct incremental costs and \$124 million for employee costs. Incremental merger expenses of \$11 million, \$9 million, \$13 million and \$13 million for each of the four quarters in 2000, respectively, were reflected in Operating and Maintenance Expense.
- (b) Reflects the effects of the quarter ended September 30, 2001 restatement. In January 2002, Exelon discovered that its September 30, 2001 financial statements required a restatement for additional net realized and unrealized losses on investments of Generation's nuclear decommissioning trust funds that were incurred prior to September 30, 2001 but not recorded.
- (c) Reflects the effects of the Unicom merger (October 20, 2000).



## 25. Subsequent Events

On February 1, 2002, ComEd called \$200 million of its First Mortgage Bonds at the redemption price of 103.84% of the principal amount, plus accrued interest to the March 21, 2002 redemption date. The bonds, which carried an interest rate of 8.625% and had a maturity date of February 1, 2022, are expected to be refinanced with long-term debt.

On March 1, 2002, Enterprises announced an agreement to sell its 49% interest in AT&T Wireless PCS of Philadelphia, LLC for \$285 million in cash. The transaction is expected to close in the first half of 2002. Enterprises expects to record a pre-tax gain of approximately \$200 million on the sale (\$120 million after income taxes) resulting in an increase in diluted earnings per share in 2002 of \$0.37. Proceeds from the transaction will be used for Exelon's general corporate purposes.