

Shares Beneficially Owned by Exelon Directors and Officers

Exelon directors and officers beneficially owned 4,955,493 shares of Exelon common stock on May 2, 2005 the record date for the Exelon annual meeting. These shares represent in total less than 1% of the total voting power of Exelon's voting securities outstanding and entitled to vote as of May 2, 2005. Exelon currently expects that Exelon's directors and officers will vote their shares in favor of the share issuance proposal, although none of them has entered into any agreements obligating them to do so.

Voting at the Annual Meeting

If you are a shareholder of record, you may vote in person by ballot at the Exelon annual meeting or by submitting a proxy. Exelon recommends you submit your proxy even if you plan to attend the annual meeting. If you attend the annual meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to Exelon in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may vote for or against the proposals or abstain from voting.

How to Vote by Proxy

By Telephone or Internet. If you are a shareholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card (877) 779-8683 or by Internet by accessing the website identified on your proxy card www.eproxyvote.com/exc. Telephone and Internet voting are available 24 hours a day and will be accessible until 11:59 p.m. on July 21, 2005. Exelon's telephone and Internet voting procedures are designed to authenticate shareholders by using individual control numbers. **If you hold your shares through a bank, broker, custodian or other recordholder, please refer to your proxy card or the voting instruction form provided by your bank, broker, custodian or other recordholder for information on telephone or Internet voting. If you submit your proxy by telephone or Internet, please do not mail your proxy card. If you are located outside the United States, Canada and Puerto Rico, see your proxy card or other materials for additional instructions with respect to voting by telephone.**

By Mail. If you are a shareholder of record and choose to submit your proxy by mail, please complete each proxy card you receive, date and sign it, and return it in the prepaid envelope which accompanied that proxy card. If you hold your shares through a bank, broker, custodian or other recordholder, please refer to your proxy card or the voting instruction form provided to you by your bank, broker, custodian or other recordholder.

Proxies without Instruction

If you are a shareholder of record and submit your proxy but do not make specific choices, your proxy will follow the Exelon board of directors' recommendations and your shares will be voted:

- "FOR" the proposal to approve the issuance of shares of Exelon common stock as contemplated by the merger agreement;
- "FOR" the proposal to elect the directors named in the director proposal;
- "FOR" the proposal to approve the amendment to Exelon's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Exelon common stock;
- "FOR" the proposal to ratify PricewaterhouseCoopers LLP as Exelon's independent accountants for the year 2005;

- "FOR" the proposal to approve the Exelon Corporation 2006 Long-Term Incentive Plan;
- "FOR" the proposal to approve the Exelon Corporation Employee Stock Purchase Plan for Unincorporated Subsidiaries; and
- "FOR" any proposal by the Exelon board of directors to adjourn or postpone the Exelon annual meeting.

If you hold your shares through a bank, broker, custodian or other recordholder, failure to instruct such recordholder how to vote your shares will have the effect described under "—Quorum, Abstentions and Broker Non-Votes."

Revocation of Proxies

You may revoke your proxy at any time prior to the time your shares are voted. If you are a shareholder of record, your proxy can be revoked in several ways:

- by entering a new vote by telephone or the Internet;
- by delivering a written revocation to Exelon's secretary that is received prior to the Exelon annual meeting;
- by submitting another valid proxy bearing a later date that is received prior to the Exelon annual meeting; or
- by attending the Exelon annual meeting and voting your shares in person.

However, if your shares are held in "street name" through a bank, broker, custodian or other recordholder, you must check with your bank, broker, custodian or other recordholder to determine how to revoke your proxy.

Proxy Solicitation

Exelon will pay the costs of soliciting proxies from Exelon shareholders. In addition to this mailing, proxies may be solicited by directors, officers or employees of Exelon in person or by telephone or electronic transmission. None of the directors, officers or employees will be directly compensated for such services. Exelon has retained Georgeson Shareholder Communications Inc. to assist in the distribution and solicitation of proxies. Exelon will pay Georgeson Shareholder Communications Inc. a fee of \$16,500, plus reasonable expenses, for these services.

The extent to which these proxy soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should submit your proxy without delay by telephone, by the Internet or by mail. Exelon also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Other Business; Adjournments

Exelon is not currently aware of any other business to be acted upon at the Exelon annual meeting. If, however, other matters are properly brought before the annual meeting, or any adjourned meeting, your proxies include discretionary authority on the part of the individuals appointed to vote your shares to act on those matters according to their best judgment.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by the affirmative vote of a majority of the votes cast by holders of shares of Exelon common stock present in person or by proxy at the Exelon annual meeting, whether or not a quorum is present, without further notice other than by an announcement at the meeting. Exelon does not currently intend to seek an adjournment of its annual meeting.

Exelon Shareholder Account Maintenance

Exelon's transfer agent is Equiserve Trust Company, N.A. All communications concerning accounts of Exelon shareholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues can be handled by calling the Exelon Shareholder Services department at (312) 394-2345, or by calling Equiserve, toll-free at (800) 626-8792. For other information about Exelon, Exelon shareholders can visit Exelon's web site at www.exeloncorp.com.

THE PSEG ANNUAL MEETING

The PSEG board of directors is using this joint proxy statement/prospectus to solicit proxies from the holders of PSEG common stock for use at the annual meeting of PSEG's shareholders. PSEG is first mailing this joint proxy statement/prospectus and accompanying proxy card to PSEG shareholders on or about [•], 2005.

Date, Time and Place of Annual Meeting

The PSEG annual meeting of shareholders will be held on July 19, 2005 at 2:00 p.m., local time at The New Jersey Performing Arts Center, One Center Street, Newark, New Jersey.

Purpose of the Annual Meeting

The purpose of the PSEG annual meeting is to take action upon the following:

- a proposal to approve the merger agreement and thereby approve of the merger;
- the election of three Class III directors: Conrad K. Harper, Shirley Ann Jackson and Thomas A. Renyi, each for a three year term;
- a proposal to ratify Deloitte & Touche LLP as PSEG's independent auditor for the year 2005;
- any proposal of the PSEG board of directors to adjourn or postpone the PSEG annual meeting;
- a shareholder proposal related to executive compensation, if presented; and
- any other business that properly comes before the annual meeting and any adjournment or postponement thereof.

Record Date for the Annual Meeting

The PSEG board of directors has fixed the close of business on May 27, 2005 as the record date for determination of shareholders entitled to notice of and to vote at the PSEG annual meeting.

Outstanding Shares

As of May 27, 2005, the record date for the PSEG annual meeting, there were approximately 238,731,592 shares of PSEG common stock outstanding.

Shares Entitled to Vote

Shares entitled to vote at the PSEG annual meeting are shares of PSEG common stock held as of the close of business on the record date, May 27, 2005. Each shareholder is entitled to one vote at the PSEG annual meeting for each share of PSEG common stock held by that shareholder at the close of business on the record date, except for the proposal relating to the election of directors, on which PSEG shareholders are entitled to cumulative voting. Shares of PSEG common stock held by PSEG in its treasury are not voted.

Quorum, Abstentions and Broker Non-Votes

A quorum of PSEG shareholders is necessary to hold a valid meeting. The presence in person or by proxy at the annual meeting of holders of a majority of the issued and outstanding shares of PSEG common stock entitled to vote at the meeting is a quorum. Shares held by PSEG in its treasury do not count towards a quorum. Abstentions and broker non-votes count as present for establishing a quorum. A broker non-vote occurs on an item when the broker is not permitted to vote on that item without instruction from the beneficial owner of the shares of PSEG common stock and the beneficial owner

gives no instruction as to voting of the shares. Under New York Stock Exchange rules, your broker or bank does not have discretionary authority to vote your shares on the proposal to approve the merger agreement or on the shareholder proposal. Without your voting instructions on those items, a broker non-vote will occur.

Vote Required

The proposals require different percentages of votes in order to approve them:

- approval of the merger agreement requires the affirmative vote of at least a majority of the votes cast by holders of shares of PSEG common stock present in person or by proxy and entitled to vote on the approval of the merger agreement, assuming a quorum is present;
- directors are elected by a plurality vote, assuming a quorum is present, with shareholders entitled to cast the number of votes equal to the number of shares held multiplied by the number of directors to be elected;
- approval of a proposal by the PSEG board of directors to adjourn or postpone the meeting requires the affirmative vote of a majority of the votes cast by holders of shares of PSEG common stock person or by proxy at the meeting, whether or not a quorum is present; and
- approval of all other proposals requires the affirmative vote of a majority of the votes cast by holders of shares of PSEG common stock present in person or by proxy and entitled to vote, assuming a quorum is present.

Abstentions and broker non-votes are not counted as votes cast on a proposal.

Shares Beneficially Owned by PSEG Directors and Officers

PSEG directors and officers beneficially owned 4,951,871 shares of PSEG common stock on May 27, 2005 the record date for the PSEG annual meeting. These shares represent in total 1.8% of the total voting power of PSEG's voting securities outstanding and entitled to vote as of May 27, 2005. PSEG currently expects that PSEG's directors and officers will vote their shares in favor of the share issuance proposal, although none of them has entered into any agreements obligating them to do so.

Voting at the Annual Meeting

If you are a shareholder of record, you may vote in person by ballot at the PSEG annual meeting or by submitting a proxy. PSEG recommends you submit your proxy even if you plan to attend the PSEG annual meeting. If you attend the annual meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to PSEG in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may vote for or against the proposals or abstain from voting.

How to Vote by Proxy

By Telephone or Internet. If you are a shareholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card (866) 242-0618 or by Internet by accessing the website identified on your proxy card www.proxyvoteweb.com/pseg. Telephone and Internet voting are available 24 hours a day and will be accessible until 11:59 p.m. on July 18, 2005. PSEG's telephone and Internet voting procedures are designed to authenticate shareholders by using individual control numbers. **If you hold your shares through a bank, broker, custodian or other recordholder, please refer to your proxy card or the voting instruction form provided by your bank, broker, custodian or other recordholder for information on telephone or Internet voting. If you submit**

your proxy by telephone or Internet, please do not mail your proxy card. If you are located outside the United States, Canada and Puerto Rico, see your proxy card or other materials for additional instructions with respect to voting by telephone.

By Mail. If you are a shareholder of record and choose to submit your proxy by mail, please complete each proxy card you receive, date and sign it, and return it in the prepaid envelope which accompanied that proxy card. If you hold your shares through a bank, broker, custodian or other recordholder, please refer to your proxy card or the voting instruction form provided to you by your bank, broker, custodian or other recordholder.

Proxies without Instruction

If you are a shareholder of record and submit your proxy but do not make specific choices, your proxy will follow the PSEG board of directors' recommendations and your shares will be voted:

- "FOR" the proposal to approve the merger agreement;
- "FOR" the proposal to elect the directors named in the director proposal;
- "FOR" the proposal to ratify Deloitte & Touche LLP as PSEG's independent auditor for the year 2005;
- "FOR" any proposal by the PSEG board of directors to adjourn or postpone the PSEG annual meeting; and
- "AGAINST" the shareholder proposal.

If you hold your shares through a bank, broker, custodian or other recordholder, failure to instruct such recordholder how to vote your shares will have the effect described under "—Quorum, Abstentions and Broker Non-Votes."

Revocation of Proxies

You may revoke your proxy at any time prior to the time your shares are voted. If you are a shareholder of record, your proxy can be revoked in several ways:

- by entering a new vote by telephone or the Internet;
- by delivering a written revocation to PSEG's secretary that is received prior to the PSEG annual meeting;
- by submitting another valid proxy bearing a later date that is received prior to the PSEG annual meeting; or
- by attending the PSEG annual meeting and voting your shares in person.

However, if your shares are held in "street name" through a bank, broker, custodian or other recordholder, you must check with your bank, broker, custodian or other recordholder to determine how to revoke your proxy.

Proxy Solicitation

PSEG will pay the costs of soliciting proxies from PSEG shareholders. In addition to this mailing, proxies may be solicited by directors, officers or employees of PSEG in person or by telephone or electronic transmission. None of the directors, officers or employees will be directly compensated for such services. PSEG has retained Morrow & Co., Inc. to assist in the distribution and solicitation of proxies. PSEG will pay Morrow & Co., Inc. a fee of \$25,000 plus reasonable expenses, for these services.

The extent to which these proxy soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should submit your proxy without delay by telephone, by the Internet or by mail. PSEG also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Other Business; Adjournments

PSEG is not currently aware of any other business to be acted upon at the PSEG annual meeting. If, however, other matters are properly brought before either meeting, or any adjourned meeting, your proxies include discretionary authority on the part of the individuals appointed to vote your shares or act on those matters according to their best judgment.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by the affirmative vote of a majority of the votes cast by holders of shares of PSEG common stock present in person or by proxy at the meeting, whether or not a quorum is present, without further notice other than by an announcement made at the meeting. PSEG does not currently intend to seek an adjournment of its annual meeting.

PSEG Shareholder Account Maintenance

PSEG acts as its own transfer agent. All communications concerning accounts of PSEG shareholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues can be handled by calling the PSEG Shareholder Services department, toll-free, at (800) 242-0813, or by visiting PSEG's web site at www.pseg.com.

Do not send in any stock certificates with your proxy cards. The exchange agent will mail transmittal forms with instructions for the surrender of stock certificates for PSEG common stock to former PSEG shareholders as soon as practicable after completion of the merger.

Enterprise Direct (Dividend Reinvestment and Stock Purchase Plan) and Employee Stock Purchase Plan, PSEG Thrift and Tax-Deferred Savings Plan and PSEG Employee Savings Plan

Participants in PSEG's Enterprise Direct Plan and Employee Stock Purchase Plan will receive one proxy card for all shares of PSEG common stock beneficially held in each such plan. Your proxy card will serve as voting instructions to the administrator of the plan. **If you fail to complete, sign and return your proxy card for the Enterprise Direct Plan, the administrator of the plan will vote your shares of PSEG common stock in accordance with the recommendation of the PSEG board of directors. If you fail to complete, sign and return your proxy card for the Employee Stock Purchase Plan, your shares will not be voted.**

Participants in the PSEG Thrift and Tax-Deferred Savings Plan or the PSEG Employee Savings Plan will receive a separate direction card from the respective plan's trustee for shares of PSEG common stock that have been allocated to their accounts under the PSEG Common Stock Fund and their ESOP Accounts. The trustee will vote the shares of PSEG common stock beneficially owned by the participant under the respective plan in accordance with such participant's instructions. **If you do not instruct the trustee how to vote your shares of PSEG common stock, your shares will not be voted.**

CHAPTER THREE EXELON PROPOSAL 1 AND PSEG PROPOSAL 1: THE MERGER

General

The Exelon board of directors is using this joint proxy statement/prospectus to solicit proxies from the holders of Exelon common stock for use at the Exelon annual meeting. The PSEG board of directors also is using this joint proxy statement/prospectus to solicit proxies from the holders of PSEG common stock for use at the PSEG annual meeting.

Exelon's Proposal

At the Exelon annual meeting, holders of shares of Exelon common stock will be asked to vote on the issuance of shares of Exelon common stock as contemplated by the merger agreement.

The merger will not be completed unless Exelon's shareholders approve the issuance of shares of Exelon common stock as contemplated by the merger agreement.

Because the holders of Exelon common stock immediately prior to completion of the merger will own a majority of the shares of Exelon common stock outstanding immediately following completion of the merger, a separate vote by the holders of Exelon common stock on the merger agreement or the merger itself is not required under Pennsylvania law.

PSEG's Proposal

At the PSEG annual meeting, holders of shares of PSEG common stock will be asked to vote on the approval of the merger agreement and thereby approve the merger.

The merger will not be completed unless PSEG's shareholders approve the merger agreement and thereby approve the merger.

Background of the Merger

As participants in the energy industry, the management of Exelon and of PSEG are each generally familiar with the business and operations of the other company, and management personnel meet from time to time at industry conferences and similar events. John W. Rowe, Chairman, President and Chief Executive Officer of Exelon, and E. James Ferland, Chairman, President and Chief Executive Officer of PSEG, have each served as a chief executive officer in the electric utility industry for a period of approximately 20 years, and Messrs. Rowe and Ferland have met from time to time to discuss industry issues, personal experiences and philosophies relating to the management of utilities. In addition, as Exelon and PSEG have been joint owners of certain nuclear generating facilities for over 30 years, management of Exelon and PSEG meet from time to time to discuss operations at jointly owned facilities. Further, PSE&G and PECO have conducted utility operations in adjacent territories for over 75 years. As a consequence of these business relationships, Exelon and PSEG each is generally familiar with the other's business and operations.

On an ongoing basis, each of Exelon and PSEG evaluates options for achieving its long-term strategic goals and enhancing shareholder value. For several years, the Exelon board of directors and management have been engaged in a strategic planning process designed to position Exelon to take advantage of growth opportunities in its industry. As part of this process, Exelon periodically has evaluated a variety of possible business combinations in light of its evolving acquisition criteria and opportunities presented by various potential transactions. As part of its regular strategic planning process, management of PSEG periodically made presentations to the PSEG board of directors that included review of potential opportunities for business combinations or acquisitions within the utility industry.

On May 12, 2004, Mr. Robert S. Shapard, the then Executive Vice President and Chief Financial Officer of Exelon, telephoned Mr. Thomas M. O'Flynn, Executive Vice President and Chief Financial Officer of PSEG, in order to arrange a meeting to discuss the general business environment, the strategic direction of their companies and operations at jointly-owned nuclear generating facilities, including, among other options, the possibility of Exelon providing operations assistance to PSEG with respect to the Salem nuclear generating facility, one of the companies' jointly-owned nuclear generating facilities. Messrs. Shapard and O'Flynn met to discuss these matters and other strategic opportunities regarding the companies' generation businesses on May 20, 2004.

On May 25, 2004, at a regularly scheduled meeting of the Exelon board of directors and as part of Exelon's ongoing strategic planning process described above, members of Exelon management mentioned several potential candidates for an acquisition or business combination, including PSEG. The Exelon board of directors gave informal authorization to management to make contact with some of the companies discussed in order to assess the possibility of a business combination or other strategic transaction. Management of Exelon was engaged in an evaluation of the feasibility of transactions with several companies, including PSEG, and management had begun working on financial models as part of these feasibility studies.

On June 11, 2004, Randall E. Mehrberg, Executive Vice President, Corporate Strategy, Mergers & Acquisitions, and General Counsel of Exelon, and Mr. O'Flynn attended the annual meeting of Nuclear Electric Insurance Limited, or "NEIL," in Bermuda. Messrs. Mehrberg and O'Flynn, both NEIL board members, met briefly at that time to discuss further the matters that Mr. O'Flynn had previously discussed with Mr. Shapard at their May 20, 2004 meeting.

On June 14, 2004, Mr. Rowe contacted Mr. Ferland and scheduled a meeting to discuss strategic alternatives for Exelon and PSEG, in particular with respect to Exelon's and PSEG's jointly-owned nuclear generating facilities.

On June 15, 2004, the PSEG board of directors held a regularly scheduled meeting at which the conversations between Messrs. Mehrberg, Shapard and O'Flynn and the proposed meeting between Mr. Ferland and Mr. Rowe were discussed.

On June 23, 2004, Mr. Rowe met with Mr. Ferland in Boston, Massachusetts. Mr. Rowe and Mr. Ferland discussed possible arrangements for improving operations at jointly-owned nuclear generating facilities, including the suggestion made by Exelon that Exelon provide operational assistance with respect to the Salem nuclear generating facility jointly-owned by Exelon and PSEG and operated by PSEG. They also discussed other alternatives, including a possible exchange of ownership of jointly-owned nuclear generating facilities. Messrs. Rowe and Ferland also discussed general considerations relating to a possible business combination between Exelon and PSEG.

Exelon held a previously scheduled strategy retreat of its board of directors on June 27 through June 29, 2004. At the retreat and as part of the ongoing strategic planning process, management presented to the Exelon board of directors an analysis of the mergers and acquisition strategy of Exelon and an evaluation of a number of possible transactions, including a possible business combination with PSEG or one of several other companies.

On July 1, 2004, Mr. Mehrberg and Mr. O'Flynn attended a meeting of the strategic planning committee of the board of NEIL held at PSEG's offices in Newark, New Jersey. After the NEIL meeting, Messrs. Mehrberg and O'Flynn met to discuss further strategic options relating to nuclear generating facilities and to discuss strategic alternatives for their companies, including a possible business combination.

On July 16, 2004, Mr. Mehrberg phoned Mr. O'Flynn to discuss the possibility of exploring a business combination to be structured as a stock-for-stock merger with a fixed exchange ratio representing a pricing premium in the range of 10-20%, subject to, among other things, the results of

due diligence, the input of financial advisors and the outcome of further discussions. Mr. Mehrberg also expressed Exelon's interest in putting in place an operating services contract with respect to PSEG's and Exelon's jointly-owned nuclear generation facilities. Mr. Mehrberg indicated that Mr. Rowe would contact Mr. Ferland to discuss the matter further.

Mr. Rowe and Mr. Ferland had a telephone discussion on July 19, 2004. Mr. Rowe and Mr. Ferland discussed the possibility of an operating services contract for PSEG's and Exelon's jointly-owned nuclear generating facilities. They also discussed the possibility of exploring a business combination to be structured as a stock-for-stock merger with a pricing premium in the range of 10 to 20%, subject to a number of different factors, including results of due diligence, input of financial advisors, satisfactory regulatory assessments, governance issues, the outcome of further discussions and approval of each company's board of directors.

On July 20, 2004, the PSEG board of directors held a regularly scheduled board meeting at which Mr. Ferland reviewed with the directors his discussions with Mr. Rowe. The PSEG board of directors directed Mr. O'Flynn to request certain information from Exelon, including information about Exelon's operating experience with respect to its nuclear generating facilities. Mr. O'Flynn phoned Mr. Mehrberg that day to request that information.

On July 21, 2004, Mr. Mehrberg and Mr. Shapard participated in a conference call with Mr. O'Flynn and R. Edwin Selover, Senior Vice President and General Counsel of PSEG. They discussed the possibility of further discussions with respect to a possible business combination and the provision by Exelon of nuclear operating services. They concluded that, given the early stage of the discussions, they would not retain investment banking firms at that time to act as financial advisors in connection with a possible business combination. That same day, Mr. Selover provided a form of mutual confidentiality agreement to Mr. Mehrberg.

On July 26, 2004, Mr. Mehrberg and Mr. Shapard participated in a call with Mr. O'Flynn to discuss PSEG's interest in continuing discussions concerning a possible business combination. During this conversation, Messers Mehrberg, Shapard and O'Flynn confirmed the mutual interest of Exelon and PSEG in continuing discussions about a possible nuclear operating services contract and a possible business combination structured as a stock-for-stock merger.

On July 27, 2004, Exelon held a regularly scheduled meeting of its board of directors, at which Exelon management discussed contacts made with companies in the industry with respect to the possibility of a business combination and the results of management's further analysis of potential transactions with two of those companies. At this meeting, Exelon management reported on the status of the preliminary investigation of potential business combination transactions, including a potential transaction with PSEG. The results of the preliminary investigation presented to the Exelon board of directors included analysis of various factors that would affect the value of potential transactions to Exelon, including, but not limited to, earnings per share accretion/dilution, synergies and scalability, consistency of state regulatory models, regional diversity, opportunities for diversification, opportunities to serve markets with generation fleet, social issues, international and non-core assets, size of transaction, and credit considerations. The Exelon board of directors also discussed the continuing conversations with PSEG with respect to the general terms of a possible business combination and the terms of the proposed operating services contract. After considering the factors relevant to the evaluation of alternatives, the feasibility of the alternatives and the nature of discussions with PSEG, the Exelon board of directors accepted management's recommendation that Exelon pursue a possible business combination with PSEG. The Exelon board of directors instructed management to proceed with discussions with PSEG on the basis of the conversations held to date and to begin due diligence efforts.

On July 29, 2004, Mr. Mehrberg and Mr. Shapard spoke again with Mr. O'Flynn regarding Exelon's perspective with respect to a possible business combination. They also identified various financial advisors that each company might consider retaining.

Considering the size, complexity and geographic diversity of the proposed merger with PSEG, Exelon determined to retain two internationally recognized financial advisors with complementary strengths and substantial experience in similar transactions involving complex financial analysis, international operations and nuclear electric generation. On August 5, 2004, Mr. Rowe met with representatives of J.P. Morgan Securities Inc. to discuss the retention of JPMorgan as a financial advisor with respect to a possible business combination with PSEG. Exelon retained JPMorgan on August 9, 2004. On August 7, 2004, Messrs. Mehrberg and Shapard contacted representatives of Lehman Brothers Inc. to discuss the potential retention of Lehman Brothers as a financial advisor with respect to a possible transaction. Exelon retained Lehman Brothers as one of its financial advisors shortly thereafter.

On August 9, 2004, Mr. O'Flynn contacted representatives of Morgan Stanley & Co. Incorporated to discuss the possible retention of Morgan Stanley by PSEG as its financial advisor with respect to PSEG's strategic discussions with Exelon, including the fact that Morgan Stanley was then acting as Exelon's financial advisor with respect to its possible disposition of Sithe Energies, Inc.

On August 12, 2004, Exelon and PSEG entered into the mutual confidentiality agreement and a joint defense and common interest agreement. Mr. Mehrberg and Mr. O'Flynn attended a meeting of the strategic planning committee of the board of NEIL held at Exelon's offices in Philadelphia, Pennsylvania. That day Mr. Mehrberg and Mr. O'Flynn spoke again about the possibility of a strategic combination of Exelon and PSEG and the possible terms of such a transaction, as well as the due diligence and other steps that would be necessary to determine whether an agreement could be reached. During the course of later discussions on August 12, Messrs. Mehrberg, Shapard and O'Flynn talked generally about a possible business combination with an exchange ratio representing a pricing premium in the range of 13 to 17%, subject to, among other things, the results of due diligence, the input of financial advisors, satisfactory regulatory assessments, the outcome of further discussions and approval of each company's board of directors. Later that evening, Messrs. Mehrberg, Shapard, O'Flynn and Selover and Mr. Frank Cassidy, President and Chief Operating Officer of PSEG Power, met in Washington, D.C., to discuss various aspects of the possible strategic combination, including financial matters and nuclear operations.

On August 13, 2004, representatives of Exelon and PSEG, including Messrs. Mehrberg, Shapard, O'Flynn, Selover and Cassidy and Ms. Elizabeth A. Moler, Executive Vice President, Governmental & Environmental Affairs and Policy of Exelon, along with representatives of Skadden, Arps, Slate, Meagher & Flom LLP, Exelon's federal regulatory counsel, and representatives of Steptoe & Johnson LLP, PSEG's federal regulatory counsel, and representatives of other advisors of Exelon and PSEG, met in Washington, DC to discuss the federal regulatory aspects relating to a possible business combination and arrangements relating to the operation of PSEG's nuclear generating facilities.

On August 18, 2004, Mr. Mehrberg and Mr. Shapard discussed with Mr. O'Flynn PSEG's possible retention of Morgan Stanley as its financial advisor with respect to a possible business combination. The parties discussed the scope of Morgan Stanley's proposed engagement and the fact that Morgan Stanley was then acting as Exelon's financial advisor with respect to its possible disposition of Sithe. The parties confirmed that Morgan Stanley's work on this assignment would not pose an impediment to PSEG's engagement of Morgan Stanley as its financial advisor. Management of PSEG continued to discuss internally its selection of a financial advisor.

On August 24, 2004, PSEG retained Morgan Stanley as its financial advisor. On that day, Mr. O'Flynn and other representatives of PSEG met with representatives of Morgan Stanley in order to discuss PSEG's strategic alternatives, including a possible business combination with Exelon.

On August 30, 2004, at the request of the PSEG board of directors, Mr. Rowe met with members of the PSEG board of directors in Short Hills, New Jersey in order to discuss his strategic rationale for a possible business combination and his long-range plans for a combined company.

On September 2, 2004, the PSEG board of directors held a previously scheduled strategy conference. Members of PSEG management, including Mr. O'Flynn and Mr. Selover, also participated in the conference. At the conference, the PSEG board of directors discussed industry trends and strategic issues and alternatives for PSEG, including a possible business combination with Exelon.

Also on September 2, 2004 senior officers of Exelon, including Mr. Mehrberg and Mr. Shapard, representatives of Sidley Austin Brown & Wood LLP, Exelon's mergers and acquisitions counsel, Skadden, JPMorgan and Lehman Brothers and other advisors held an organizational meeting in Chicago, Illinois, at the offices of Sidley Austin Brown & Wood LLP in order to formally begin due diligence efforts with respect to a possible business combination with PSEG.

During the period of September to mid-November 2004, PSEG consulted regularly with Pillsbury Winthrop LLP (now Pillsbury Winthrop Shaw Pittman LLP), outside counsel to PSEG, and Morgan Stanley concerning legal and financial issues that would arise in the course of consideration of a potential business combination with Exelon.

During the period of September 9 through November 17, 2004, the parties and certain of their financial, legal, accounting and other advisors held numerous and extensive meetings by telephone or in person to exchange information in the course of the due diligence process, to consider possible synergies and other opportunities presented by a business combination and to discuss regulatory requirements and strategies. Additional document due diligence was conducted during this same period. During this time Exelon and PSEG reviewed a broad range of business, financial, accounting, legal and operational issues, with a particular emphasis on financial and related accounting matters and on Exelon's understanding of the business of PSEG Energy Holdings. The parties were also in regular contact, as appropriate, concerning the outcome of meetings of their respective boards of directors at which the possible business combination was discussed. In addition, representatives of Exelon and PSEG met during this period to discuss an operating services contract in order to improve operations at PSEG's nuclear generating facilities.

On September 21, 2004, the PSEG board of directors held a regularly scheduled meeting during which regulatory considerations relating to a possible business combination with Exelon were discussed.

On October 1, 2004, Messrs. Mehrberg, Shapard, O'Flynn and Selover, together with other representatives of Exelon and PSEG, JPMorgan, Lehman Brothers and Morgan Stanley, met at Lehman Brothers' offices in New York City in order to discuss the status of due diligence and related matters.

On October 4, 2004, representatives of Exelon and PSEG, including Messrs. Mehrberg, Shapard, O'Flynn and Selover spoke regarding alternatives for a nuclear operating services contract.

On October 18, 2004, Mr. Mehrberg and Mr. O'Flynn spoke by telephone with respect to the status of the due diligence efforts of the parties and the progress of discussions with respect to the terms of possible business combination. The discussion covered various subjects that the parties had been evaluating as part of the due diligence effort and how those subjects might become relevant to the possible terms of a business combination.

On October 19, 2004, the PSEG board of directors held a previously scheduled regular meeting at which the directors discussed the status of the evaluation of a possible business combination with Exelon and Exelon's performance with respect to nuclear generation.

On October 26, 2004, the Exelon board of directors held a previously scheduled regular meeting at which representatives of Sidley Austin, JPMorgan and Lehman Brothers were present and at which

management provided an update to the Exelon board of directors as to the ongoing discussions with PSEG and the progress to date with respect to due diligence and Exelon's preliminary financial analysis of PSEG. The update also included a discussion of the general terms of an operating services contract relating to PSEG's nuclear generating facilities. At this meeting, representatives of Sidley Austin reviewed with the directors their fiduciary duties in connection with considering a possible business combination.

On October 29, 2004, Messrs. Mehrberg, Shapard, O'Flynn and Selover spoke with respect to the status of due diligence and the progress of discussions with respect to the possible business combination, as well as the status and scope of the proposed operating services contract.

On the evening of November 7 and morning of November 8, 2004, Mr. Mehrberg and Mr. Shapard met with Mr. Selover and Mr. O'Flynn in Chicago, Illinois, to discuss in more detail the terms of a possible business combination. Exelon proposed, subject to the results of due diligence and approval by the Exelon board of directors, a stock-for-stock merger with a fixed exchange ratio representing a pricing premium of approximately 15%. In addition, there was a discussion of regulatory, nuclear, governance, headquarters and related issues.

On November 10, 2004, Mr. John Young, Executive Vice President of Exelon and President of Exelon Generation, and Mr. Christopher M. Crane, Senior Vice President of Exelon, President & Chief Nuclear Officer of Exelon Nuclear and President and Chief Executive Officer of Amergen, met with Mr. Ferland and Mr. Cassidy in order to discuss Exelon's management process with respect to the operation of nuclear generating facilities.

Also on November 10, 2004, Messrs. Mehrberg, Shapard, O'Flynn and Selover spoke with respect to the regulatory aspects of a possible business combination.

On November 11, 2004, Messrs. Mehrberg, Shapard, O'Flynn and Selover met in Elizabeth, New Jersey, in order to discuss in more detail the terms of a possible business combination, including possible exchange ratios. Messrs. Mehrberg and Shapard initially proposed a fixed exchange ratio of 1.20 shares of Exelon stock for each share of PSEG common stock. Mr. O'Flynn proposed a premium of 17%, which was roughly equivalent to a 1.25 exchange ratio based on then current prices. The parties did not reach any agreement on the exchange ratio for a possible business combination during the course of these discussions. The parties also discussed the proposed agreement for nuclear operating services, issues associated with regulatory approvals for a business combination, governance issues, the location of headquarters of business units and related matters.

On November 12, 2004, Messrs. Mehrberg, Shapard, O'Flynn and Selover spoke again with respect to the terms of a possible business combination and, in particular, the exchange ratio for such a transaction. In these discussions, the parties had further discussion about a possible exchange ratio in the range of between 1.22 and 1.24 shares of Exelon common stock for each share of PSEG common stock. That same day Mr. Rowe and Mr. Ferland met in Washington, DC to discuss the proposed terms of a possible business combination. Mr. Rowe proposed, subject to approval by the Exelon board of directors, the completion of due diligence and both companies near-term stock performance, a business combination with a fixed exchange ratio of 1.225 shares of Exelon common stock for each share of PSEG common stock. They also discussed a proposed commitment by Exelon to raise its dividend over time after the execution of a merger agreement such that the first dividend received by PSEG shareholders after completion of the merger would match the dividend received by them prior to completion of the merger on an exchange ratio adjusted basis.

On November 13, 2004, Messrs. Rowe and Ferland had a telephone conference in which Mr. Ferland indicated that he would present the proposed terms to the PSEG board of directors, including the 1.225 fixed exchange ratio proposed by Mr. Rowe, and recommend proceeding with full due diligence and negotiation of the terms of a merger agreement.

On November 15, 2004, the Exelon board of directors met in person, along with representatives of Sidley Austin, JPMorgan and Lehman Brothers, in order to discuss the results of Exelon's due diligence efforts to date, including the proposed regulatory strategy and preliminary analysis of the financial prospects of PSEG and a combined company, and the proposed terms of the business combination. In addition, the Exelon board of directors reviewed the terms of the proposed operating services contract and the general terms of a proposed business combination, including the general terms of a draft merger agreement. After a discussion, the Exelon board of directors authorized management to go forward with further due diligence and to present a draft of a proposed merger agreement to PSEG. Later the same day Mr. Rowe spoke with Mr. Ferland by phone to report the decision of the Exelon board of directors.

On November 16, 2004, the PSEG board of directors held a regularly scheduled meeting, also attended by representatives of Pillsbury Winthrop and Morgan Stanley, in order to discuss the status of the possible business combination, including the proposed terms thereof. Pillsbury Winthrop reviewed with the PSEG board of directors the legal and fiduciary responsibilities of directors when contemplating potential business combination transactions. After a discussion, the PSEG board of directors authorized management to go forward with further due diligence, including the formation of an expanded internal and external due diligence team, and to begin negotiation of a merger agreement. Later that day Mr. Ferland phoned Mr. Rowe in order to discuss the outcome of the meeting and to discuss a time schedule for conducting further due diligence and negotiations regarding a possible business combination. Mr. Ferland also requested that Mr. Crane and Mr. Young meet with the nuclear committee of the PSEG board of directors to discuss Exelon's management process with respect to the operation of nuclear generating facilities.

During the period from November 17, 2004 through December 19, 2004, the parties conducted further due diligence with respect to each other, including document review and in person and telephonic meetings among the parties and their legal, financial, accounting and other advisors. This review included an examination of business and financial outlooks, litigation, environmental, accounting, financial reporting, tax, treasury, power trading, human resources, employee benefits, executive compensation, information technology and general legal matters.

On November 18, 2004, Sidley Austin delivered a draft of the merger agreement to PSEG and Pillsbury Winthrop. On November 30, 2004, Pillsbury Winthrop delivered PSEG's comments to the draft merger agreement.

On November 30, December 1 and December 3, 2004, the generation oversight, energy delivery oversight and enterprises oversight committees of the Exelon board of directors, respectively, met to discuss with members of management certain aspects of Exelon's due diligence efforts. In addition, on November 30, 2004, Exelon and PSEG made a joint presentation to each of Standard and Poor's and Moody's in order to inform the rating agencies of a possible merger of PSEG with Exelon and present the financial outlook for the combined company.

On December 6, 2004, Messrs. Mehrberg and Shapard and other representatives of Exelon, along with representatives of Sidley Austin and Lehman Brothers, met with Messrs. O'Flynn and Selover, along with representatives of Pillsbury Winthrop and Morgan Stanley, in Chicago, Illinois, to discuss the draft merger agreement and related transaction issues. On December 7, 2004, Sidley Austin delivered a revised draft of the merger agreement to PSEG and Pillsbury Winthrop.

On December 7, 2004, the Exelon board of directors held a previously scheduled regular meeting, which meeting was attended by representatives of Sidley Austin, JPMorgan and Lehman Brothers. The Exelon board of directors discussed the status of due diligence and the financial analysis of PSEG, the course of negotiations to date and various other matters relating to the proposed business combination. Exelon management reviewed with the Exelon board of directors the proposed terms of the operating

services contract. That same day Messrs. Mehrberg, Shapard, O'Flynn and Selover spoke regarding the outcome of the meeting of the Exelon board of directors and the course of negotiations.

On December 8, 2004, the parties reached substantial agreement in principle on the terms of the operating services contract, subject to board approval and satisfactory resolution of related regulatory matters.

On December 10, 2004, Mr. Shapard and other representatives of Exelon, along with representatives of Sidley Austin and Lehman Brothers, met in New York, New York, at the offices of Sidley Austin with Messrs. O'Flynn and Selover, along with representatives of Pillsbury Winthrop and Morgan Stanley, to discuss the revised draft of the merger agreement. On December 11, 2004, Sidley Austin sent a revised draft of the merger agreement to PSEG and Pillsbury Winthrop.

On December 11, 2004, Mr. Rowe met over dinner with directors of PSEG in Bernardsville, New Jersey to discuss his strategic vision for a combined company.

On December 12, 2004, the nuclear committee of the PSEG board of directors, and certain other PSEG directors, met with Messrs. Rowe, Young and Crane and with representatives of PSEG to review Exelon's management process with respect to the operation of nuclear generating facilities. Also on December 12, the PSEG board of directors held a special meeting, also attended by representatives of Pillsbury Winthrop, Steptoe & Johnson, Morgan Stanley and other advisors, to discuss the results of PSEG's due diligence and the discussions to date with respect to the merger agreement. Pillsbury Winthrop led the PSEG board of directors through a discussion of the terms of the draft merger agreement and discussed the PSEG board of directors' duties in the context of considering the proposed business combination. Morgan Stanley reviewed the status of certain preliminary financial analyses of the proposed business combination with the PSEG board of directors. That evening, Mr. O'Flynn spoke to Mr. Mehrberg with respect to various matters raised by the PSEG board of directors on the merger agreement and related items.

On December 13, 2004, Messrs. Mehrberg and Shapard and other representatives of Exelon, along with representatives of Sidley Austin and Lehman Brothers, met with Messrs. O'Flynn and Selover and representatives of Pillsbury Winthrop and Morgan Stanley by teleconference to discuss the revised draft of the merger agreement. On December 14, 2004, Sidley Austin distributed a revised draft of the merger agreement to PSEG and Pillsbury Winthrop.

On December 15, 2004, Messrs. Mehrberg and Shapard and other representatives of Exelon, along with representatives of Sidley Austin and Lehman Brothers, and Messrs. O'Flynn and Selover, along with representatives of Pillsbury Winthrop and Morgan Stanley, met by teleconference to discuss the revised draft of the merger agreement. Later that day, Sidley Austin distributed a revised draft of the merger agreement to PSEG and Pillsbury Winthrop and to the Exelon board of directors. On December 16, 2004, PSEG distributed the revised draft of the merger agreement to the PSEG board of directors.

On December 17, 2004, at a special meeting, the Exelon board of directors met in person and by video conference in Chicago, Illinois and Philadelphia, Pennsylvania, to discuss the merger agreement and the proposed terms and conditions of the merger. The Exelon board of directors also reviewed the business, regulatory, financial and operational aspects of the proposed merger. At the meeting, representatives of Sidley Austin led the Exelon board of directors through a detailed review of the merger agreement. Representatives of Sidley Austin also reviewed with the members of the Exelon board of directors their fiduciary duties in connection with considering a business combination. The Exelon board of directors also reviewed the due diligence findings and management's financial analysis of the transaction. In addition, representatives of JPMorgan and Lehman Brothers presented their analysis of the transaction and each stated that they were prepared to render an opinion to the Exelon board of directors that, based upon and subject to the assumptions, qualifications and limitations

described by them and to be set forth in their written opinions, the proposed 1.225 exchange ratio in the merger was fair, from a financial point of view, to Exelon.

On December 17, 2004, Sidley Austin distributed a revised draft of the merger agreement to PSEG and Pillsbury Winthrop in response to comments on the previous draft communicated by representatives of Pillsbury Winthrop. On December 18, 2004, representatives of Sidley Austin held further discussions with representatives of Pillsbury Winthrop with respect to the draft merger agreement. On December 18, 2004, Sidley Austin distributed a revised draft of the merger agreement to PSEG and Pillsbury Winthrop and to the Exelon board of directors. PSEG distributed this revised draft of the merger agreement to its board of directors that same day.

On December 19, 2004, the organization and compensation committee of the PSEG board of directors held a special meeting in person and by telephone attended, for a portion of the meeting, by Hewitt Associates LLC and by Messrs. Ferland and Selover, to consider the proposed severance and retention plans, an amendment to Mr. Ferland's employment agreement, to avoid triggering the severance benefit that would otherwise result from the merger and the change in his responsibilities, and certain employment agreements. The committee approved the proposed arrangements and resolved to recommend their adoption to the PSEG board of directors.

On the morning of December 20, 2004, the PSEG board of directors held a special meeting, in person and by teleconference, with representatives of PSEG, Pillsbury Winthrop, Steptoe & Johnson and Morgan Stanley to discuss the merger agreement and the proposed terms and conditions of the transaction, the operating services agreement, severance and retention plans, the amendment to Mr. Ferland's employment agreement and other employment agreements. Pillsbury Winthrop reviewed the merger agreement with the PSEG board of directors. Morgan Stanley delivered its oral opinion (subsequently confirmed in writing) that, as of December 20, 2004 and based upon and subject to the considerations, assumptions and limitations discussed in the opinion, the exchange ratio under the merger agreement was fair, from a financial point of view, to the holders of PSEG common stock.

The PSEG board of directors, by unanimous vote, approved the merger agreement and the merger and the operating services contract.

The Exelon board of directors held a special meeting by telephone on the morning of December 20, 2004. At this meeting the Exelon board of directors reviewed the final merger agreement and the factors that it considered in connection with the proposed merger, and representatives of each of JPMorgan and Lehman Brothers delivered their firm's respective written opinions that, based upon and subject to the assumptions, qualifications and limitations described in such opinion, the 1.225 exchange ratio in the merger was fair, from a financial point of view, to Exelon.

Also on the morning of December 20, 2004, the Exelon board of directors, by unanimous vote, approved the merger agreement and the merger, including the issuance of shares of Exelon common stock as contemplated by the merger agreement, and the operating services contract. Thereafter Exelon and PSEG executed the merger agreement and the operating services contract and issued a joint press release announcing execution of the merger agreement.

Recommendation of Exelon Board; Exelon's Reasons for the Merger

The Exelon board of directors has unanimously approved the merger agreement, has unanimously determined that the merger, including the issuance of shares of Exelon common stock as contemplated by the merger agreement, is advisable, fair to and in the best interests of Exelon and its shareholders and unanimously recommends a vote FOR the proposal to approve the issuance of shares of Exelon common stock as contemplated by the merger agreement.

In reaching its decision to recommend the issuance of shares of Exelon common stock as contemplated by the merger agreement, the Exelon board of directors consulted with Exelon

management, as well as J.P. Morgan Securities Inc. and Lehman Brothers Inc., Exelon's financial advisors, Sidley Austin Brown & Wood LLP, Exelon's outside mergers and acquisitions counsel, and, with respect to federal regulatory matters, Skadden, Arps, Slate, Meagher & Flom LLP, Exelon's outside federal regulatory counsel, and considered various material factors, which are described below. The following discussion of the information and factors considered by the Exelon board of directors is not exhaustive, but includes all material factors considered by the Exelon board of directors. In view of the wide variety of factors considered by the Exelon board of directors in connection with its evaluation of the merger, the Exelon board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. In considering the factors described below, individual members of the Exelon board of directors may have given different weight to different factors. The Exelon board of directors considered this information as a whole, and overall considered the information and factors to be favorable to, and in support of, its determinations and recommendations. Among the material information and factors considered by the Exelon board of directors were the following:

Strategic Considerations. The Exelon board of directors considered a number of factors pertaining to the strategic rationale for the merger, including the following:

- Increased Scale and Scope; Diversification. The merger will create a combined company with increased scale and scope in both energy delivery and generation. In addition, the combined company will have greater diversification and balance in its energy delivery business and generation portfolio. This increased scale, scope and diversification should allow for improved service and reliability with greater earnings predictability. In the energy delivery business, the combined company will have three urban utility-based franchises with service areas encompassing more than 18 million people. The combined company will also have a large gas distribution portfolio to complement its electric distribution business. In the generation business, the combined company is expected to have approximately 52,000 megawatts of domestic capacity in multiple states prior to giving effect to any divestitures or other measures that may be required by governmental authorities, including approximately 20,000 megawatts of low-cost nuclear generation. This generation portfolio diversification should create a more balanced portfolio in terms of geography, fuel mix, dispatch and load-servicing capacity.
- Anticipated Financial Strength and Flexibility. The increased scale and scope is ultimately expected to strengthen the balance sheet of the combined company. In addition, the diversification of the energy delivery and generation portfolios of the combined company should result in a more stable cash flow, with approximately half of the combined company's earnings and cash flow coming from the three utilities and approximately half coming from the generation and other non-utility businesses.
- Expanded and Improved Nuclear Operations. The combined company will have expanded nuclear operations and should be able to capitalize on Exelon's nuclear operating and cost structure improvements, as well as the sharing of best practices across organizations.
- Combined Expertise in Competitive Markets. The Exelon board of directors believes the merger will combine companies with complementary areas of expertise: Exelon's expertise in generation operations and PSEG's expertise in transmission and distribution operations. In addition, PSEG's knowledge of the New Jersey auction process for procurement of power for utility customers will be valuable for ComEd as Illinois transitions to a competitive market with an expected similar auction process. The combined company is expected to be able to draw upon the intellectual capital, technical expertise and experience of a deeper and more diverse workforce. The combined company should also be better able to invest in and deploy new technologies to improve service.

- Common Regulatory Framework. New Jersey, Pennsylvania and Illinois have all passed legislation bringing competition to the electric industry, and are in varying phases of the transition to full competition.

Synergies. The Exelon board of directors considered that, although no assurance can be given that any particular level of cost savings and other synergies will be achieved, Exelon management had identified estimated synergies of approximately \$400 million in the first full year of operations following completion of the merger and approximately \$500 million in the second full year of operations following completion of the merger, prior to out-of-pocket expenses and transaction costs. The Exelon board of directors also considered the probability that the net present value of the estimated synergies over a ten-year period, plus terminal value, would exceed the premium to be paid in the merger under a range of assumptions. The Exelon board of directors took note of the fact that the synergy numbers were estimates, that they may change and that achieving the synergies is subject to a number of uncertainties. See "Risk Factors—Risks Relating to the Merger—The anticipated benefits of combining PSEG and Exelon may not be realized."

Comparable Business Approach. The Exelon board of directors considered the comparable corporate cultures of the two companies, including their shared commitment to supporting and participating in competitive energy markets and the competitive strategies of the companies.

Impact of the Merger on Customers, Employees, Suppliers. The Exelon board of directors evaluated the expected impact of the merger on Exelon's customers, employees and suppliers. Specifically, the merger should benefit customers by enhancing operations and strengthening reliability and provide more opportunities for employees in a larger, more competitive company.

Impact of the Merger on Communities. The Exelon board of directors evaluated the expected impact of the merger on the communities in which Exelon and PSEG are located and which they serve. In particular, the Exelon board of directors believes the merger will benefit the municipalities served by the combined company by creating a strong combined company able to provide more reliable service with operating headquarters in Newark, New Jersey, Chicago, Illinois, and Philadelphia, Pennsylvania. In addition, the companies expect to maintain their substantial presence in the cities and communities they serve, including significant charitable contributions.

Benefits of Operating Services Contract. The Exelon board of directors evaluated the expected benefits to Exelon and the expected increase in the value of PSEG resulting from the nuclear operating services contract entered into by Exelon Generation and PSEG Nuclear. See "The Merger—Certain Relationships Between Exelon and PSEG; Operating Services Contract" for a description of the contract.

Share Prices. The Exelon board of directors took note of the historic stock prices of Exelon and PSEG, including that the exchange ratio represented a 14.6% premium over the closing price of PSEG's common stock on December 16, 2004 and a 18.7% premium over the 30-day average closing price of PSEG's common stock as of December 16, 2004.

Financial Considerations. The Exelon board of directors considered the expected financial impact of the merger on Exelon in light of Exelon's acquisition criteria, including that the merger is expected to be accretive to shareholders of both companies. In particular, the Exelon board of directors considered the quantitative analysis of the merger on the combined company's earnings per share and the financial prospects of Exelon and PSEG, including the financial projections and extensions thereof prepared by the management of Exelon and the financial projections prepared by the management of PSEG, as adjusted by the management of Exelon. The Exelon board of directors also considered the historic financial condition, operating results and businesses of Exelon and PSEG, including information with respect to their respective earnings history.

Opinions of Financial Advisors. The Exelon board of directors considered the opinions of each of JPMorgan and Lehman Brothers to the Exelon board of directors that, as of December 20, 2004 and subject to and based upon the assumptions, qualifications and limitations discussed in each opinion, the exchange ratio in the merger was fair, from a financial point of view, to Exelon. See "The Merger—Opinions of Financial Advisors—Opinions of Exelon's Financial Advisors."

Strategic Alternatives. The Exelon board of directors considered the trends and competitive developments in the industry and the range of strategic alternatives available to Exelon, including the possibility of business combinations with other participants in the industry or continuing to operate as a stand-alone entity.

Recommendation of Management. The Exelon board of directors took into account management's recommendation in favor of the merger.

Terms of the Merger Agreement. The Exelon board of directors reviewed the terms of the merger agreement, including that the exchange ratio is fixed, the restrictions on Exelon's interim operations, the covenant for Exelon, subject to the Exelon board of directors' fiduciary duties and applicable laws, to increase its dividend to equal PSEG's on an exchange ratio adjusted basis, the ability of PSEG in specified circumstances to issue up to \$350 million in equity or equity equivalents prior to completion of the merger, the conditions to each party's obligation to complete the merger, the instances in which each party is permitted to terminate the merger agreement and the related termination fees payable by each party in the event of termination of the merger agreement under specified circumstances. See "The Merger Agreement" for a detailed discussion of the terms and conditions of the merger agreement. The Exelon board of directors also considered the course of negotiations of the merger agreement.

Severance and Retention Arrangements. The Exelon board of directors considered the severance and retention arrangements of PSEG in place prior to the execution of the merger agreement and those adopted in contemplation of execution of the merger agreement and the impact of such arrangements on the retention of key management of PSEG.

Due Diligence. The Exelon board of directors considered the scope of the due diligence investigation conducted by management and Exelon's outside advisors, including due diligence with respect to PSEG's international operations and evaluated the results thereof, including the information contained in PSEG's disclosure letter relating to the merger agreement. The Exelon board of directors also took note of the reports of the committees of the Exelon board of directors evaluating the results of the due diligence investigations and the coverage of identified risk areas in the representations and warranties in the merger agreement.

Likelihood of Completion of the Merger. The Exelon board of directors considered the likelihood that the merger will be completed on a timely basis, including the likelihood that the merger will receive all necessary regulatory approvals without unacceptable conditions. The Exelon board of directors took note of the closing condition in the merger agreement that neither Exelon nor PSEG is required to complete the merger if any governmental authority has entered a "*burdensome order*" in connection with the required statutory approvals. (See "The Merger Agreement—Covenants" for a description of this term). The Exelon board of directors also took note of Exelon's history of completing on a timely basis a transaction with similar regulatory approval requirements.

The Exelon board of directors also considered the potential risks of the merger, including the following:

Regulatory Approvals. The Exelon board of directors considered the extensive regulatory approvals required to complete the merger and the risk that the governmental authorities and third parties may seek to impose unfavorable terms or conditions on the required approvals or that such approvals would

not be obtained at all. The Exelon board of directors also considered the potential length of the regulatory approval process and that the merger agreement provides that it may not be terminated until June 20, 2006, which may be extended to December 20, 2006 under specified circumstances.

Restrictions on Interim Operations. The Exelon board of directors considered the provisions of the merger agreement placing restrictions on Exelon's operations until completion of the merger.

Diversion of Management. The Exelon board of directors considered the possible diversion of management resulting from the substantial time and effort necessary to complete the merger and integrate the operations of Exelon and PSEG following completion of the merger.

Integration. The Exelon board of directors evaluated the challenges inherent in the combination of two business enterprises of the size and scope of Exelon and PSEG, including the possibility of not achieving the anticipated synergies and other benefits sought from the merger.

Impact on Credit Rating. The Exelon board of directors considered the likelihood that the merger could result in a lower investment grade credit rating for the combined company and certain of its subsidiaries for a period of time from that of Exelon and its subsidiaries prior to the merger and the implications of such lower credit rating.

Increased Regulation. The Exelon board of directors considered the additional regulation to which the combined company would be subject.

PSEG Nuclear Generating Facilities. The Exelon board of directors considered the state of the nuclear generating facilities operated by PSEG and the impact on the combined company if the shutdown of the Hope Creek generating facility that was then in effect was extended beyond its expected timeframe or one or more of the nuclear generating facilities were unexpectedly shut down by the NRC or otherwise for an extended period of time. The Exelon board of directors took note of the ameliorative efforts of Exelon and PSEG on this matter, including under the operating services contract.

Rate Recovery. The Exelon board of directors considered the fact that as a result of purchase method accounting, certain of PSE&G's pension expenses currently recoverable under its current rate order from the NJBPU would be accelerated and may no longer be recoverable under that rate order. The Exelon board of directors took note of the fact that it is a condition to completion of the merger that PSE&G obtain an order from the NJBPU that permits PSE&G to recover such costs.

The Exelon board of directors also considered the corporate governance provisions of the merger agreement and the Amended and Restated By-laws to be adopted upon completion of the merger, including that, upon completion of the merger, the Exelon board of directors will be comprised of twelve legacy Exelon directors and six legacy PSEG directors and that following completion of the merger until March 31, 2007, Mr. E. James Ferland, the current Chairman, President and Chief Executive Officer of PSEG, will serve as the non-executive Chairman of the Exelon board of directors.

The Exelon board of directors realized that there can be no assurance about future results, including results considered or expected as described in the factors listed above, such as assumptions regarding potential synergies. It should be noted that this explanation of the Exelon board of directors' reasoning and all other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Forward-Looking Statements."

Recommendation of PSEG Board; PSEG's Reasons for the Merger

The PSEG board of directors has unanimously approved the merger agreement, has unanimously determined that the merger agreement and the merger are advisable, fair to and in the best interests of PSEG and the holders of PSEG common stock, and unanimously recommends that PSEG shareholders vote FOR the proposal to approve the merger agreement and thereby approve the merger.

In reaching its determination to recommend the approval of the merger agreement and the merger, the PSEG board of directors consulted with management, as well as Morgan Stanley & Co. Incorporated, PSEG's financial advisor, Pillsbury Winthrop Shaw Pittman LLP, PSEG's outside legal counsel, and, with respect to federal regulatory matters, Steptoe & Johnson LLP, PSEG's outside federal regulatory counsel, and considered various material factors, which are discussed below. The following discussion of the information and factors considered by the PSEG board of directors is not intended to be exhaustive. In view of the wide variety of factors considered in connection with the merger, the PSEG board of directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific material factors it considered in reaching its decision. In addition, individual members of the PSEG board of directors may have given different weight to different factors. The PSEG board of directors considered this information and these factors as a whole, and overall considered the relevant information and factors to be favorable to, and in support of, its determinations and recommendations. Among the material information and factors considered by the PSEG board of directors were the following:

Strategic Considerations. The PSEG board of directors considered a number of factors pertaining to the strategic rationale for the merger, including the following:

- Common View of the Future of the Utility Industry. The PSEG board of directors considered that the two companies share a common outlook on the preferred business model in the evolving utility industry and the characteristics necessary to assure long-term success in the industry, including supporting and participating in competitive energy markets.
- Increased Scale and Scope, Diversification of Risk. The PSEG board of directors considered that the merger will create a combined company with increased scale and scope in both energy delivery and electricity generation. The combined company will have greater diversification of markets and regulatory regimes. After merging, the combined company will maintain its proportion of business in regulated operations while reducing the proportion in international operations. By extending its operations across several states, the merger will diversify PSEG's regulatory risk by subjecting the combined company's utility operations to the jurisdictions of multiple state regulators rather than solely New Jersey. The generation portfolio will have a greater balance in terms of geography, dispatch, and load-servicing capabilities.
- Anticipated Financial Strength and Flexibility. The PSEG board of directors considered that the increased scale and diversification of the generation portfolio and utility operations are expected to provide improved earnings and cash flows, hence financial stability, for the combined company. The PSEG board of directors considered the anticipated improved credit rating of the combined company and certain of its subsidiaries. Additionally, the PSEG board of directors considered that certain of the combined company's assets, including international investments, would represent a smaller proportion of the combined company, and that opportunities to monetize selected assets would increase.
- Improved Nuclear Operations. The PSEG board of directors considered that the merger will give PSEG the opportunity to accelerate and sustain improvements at the Salem and Hope Creek nuclear generating facilities through access to Exelon's management model for nuclear operations, as well as Exelon's management employees, creating the ability to share best practices and improve both operating and cost performance. Additionally, the combined

company will have 20 nuclear generating facilities at 12 sites, reducing PSEG's operating risk at any one unit.

- Combined Expertise. The PSEG board of directors considered that the merger will combine complementary areas of expertise: PSEG's expertise in electric and gas transmission and distribution operations and Exelon's expertise in nuclear generation operations. The combined company is expected to be able to draw upon the intellectual capital, technical expertise, and experience of a deeper, more diverse workforce.
- Common Regulatory Framework. The PSEG board of directors considered that Illinois, New Jersey, and Pennsylvania have all passed legislation bringing competition to the electric industry, and are in the varying phases of transition to full competition, with New Jersey being the most advanced. Both PSEG and Exelon have experience operating within the complexities of markets which have both regulated and unregulated aspects.

Cost Savings and Synergies. The PSEG board of directors considered that, although no assurance can be given that any particular level of cost synergies will be achieved, management had identified estimated annual pre-tax cost savings and synergies of \$300 million in the first full year following completion of the merger increasing to approximately \$400 million by the third year (without deduction for out-of-pocket expenses and transaction costs). These cost savings and synergies would occur in general and administrative operations, trading operations, fossil and nuclear operations and other operations, as well as opportunities to improve its meter reading and customer service efficiency, but did not include expected improvements in the operating performance of nuclear generating units to the extent those improvements were already reflected in PSEG's forward-looking financial information for 2005-2009. The PSEG board of directors believes that particular synergy opportunities exist in the areas of corporate staffing, operations and support staffing, corporate programs, information technology, the supply chain and plant optimization. The PSEG board of directors took note of the fact that the cost synergy numbers were estimates, that they may change and that achieving the cost synergies is subject to a number of uncertainties. See "Risk Factors—Risks Relating to the Merger—The anticipated benefits of combining PSEG and Exelon may not be realized."

Impact of the Merger on Communities. The PSEG board of directors evaluated the expected impact of the merger on the communities in which PSEG is located and which it serves. The PSEG board of directors believes the merger will benefit the municipalities served by the combined company by creating a strong combined company with operating headquarters in Newark, New Jersey, Chicago, Illinois and Philadelphia, Pennsylvania. The PSEG board of directors considered that, although the corporate headquarters of the combined company will be located in Chicago, Illinois, Exelon has agreed that it will maintain the combined company's generation headquarters in Newark, New Jersey. In addition, the companies expect to maintain their substantial presence in the cities and communities they serve, including through ongoing and significant charitable contributions. In particular, the PSEG board of directors considered the provision of the merger agreement to the effect that, during the four-year period immediately following the merger, the combined company will provide charitable contributions and traditional local community support within the service areas of PSEG and its subsidiary utilities at levels substantially comparable to and no less than the levels of charitable contributions and community support provided within their service areas within the two-year period immediately prior to completion of the merger.

Benefits of Nuclear Operating Services Contract. The PSEG board of directors considered the expected benefits to PSEG resulting from the nuclear operating services contract entered into by PSEG Nuclear and Exelon Generation. See "The Merger—Certain Relationships Between Exelon and PSEG; Operating Services Contract" for a description of the contract.

Share Prices and Tax-Free Exchange. The PSEG board of directors took note of the historic stock prices of PSEG and Exelon, including that the exchange ratio represented a 19.2% premium over the closing price of PSEG's common stock on December 15, 2004 and a 17.2% premium over the 30 day average closing price of PSEG's common stock as of December 15, 2004. The PSEG board of directors considered the potential for appreciation in value of Exelon's common stock and the opportunity for PSEG shareholders receiving Exelon shares in the merger to participate in this appreciation. The PSEG board of directors also took into account the fact that the merger is designed to be tax-free to the holders of PSEG common stock.

Financial Considerations. The PSEG board of directors considered the expected financial impact of the merger on PSEG, including that the merger is expected to be accretive to PSEG shareholders in the estimated amount of 13% in the first year following the merger. In particular, the PSEG board of directors considered the quantitative analysis of the merger on the combined company's earnings per share and the financial prospects of PSEG and Exelon. The PSEG board of directors also considered the historic financial condition, operating results and businesses of PSEG and Exelon, including information with respect to their respective earnings history.

Opinion of Financial Advisor. The PSEG board of directors considered the opinion of Morgan Stanley delivered to it that, as of December 20, 2004 and subject to and based on the considerations, assumptions and limitations discussed in that opinion, the exchange ratio under the merger agreement was fair, from a financial point of view, to the holders of PSEG's common stock. See "The Merger—Opinions of Financial Advisors—Opinion of PSEG's Financial Advisor."

Recommendation of Management. The PSEG board of directors considered management's recommendation in support of the merger.

Stand-Alone Strategy. The PSEG board of directors considered the prospects inherent in PSEG's stand-alone business plan, including among other strategies the potential monetization of certain of its assets and the plans for improvement in its nuclear operations. The PSEG board of directors considered that the benefits of the merger are likely to be achieved on a more accelerated basis and with less uncertainty of execution than the stand-alone business plan.

Terms of the Merger Agreement. The PSEG board of directors reviewed the terms of the merger agreement, including Exelon's undertaking, subject to the Exelon board of directors' fiduciary duties and applicable law, to increase its dividend to equal PSEG's on an exchange ratio adjusted basis, the degree of mutuality and symmetry of representations, obligations and rights of the parties under the merger agreement, the conditions to each party's obligation to complete the merger, the instances in which each party is permitted to terminate the merger agreement and the related termination fees payable by each party in the event of termination of the merger agreement under specified circumstances. See "The Merger Agreement" for a detailed discussion of the terms and conditions of the merger agreement.

Due Diligence. The PSEG board of directors considered the scope of the due diligence investigation conducted by management and PSEG's outside advisors and evaluated the results thereof, including the information contained in Exelon's disclosure letter relating to the merger agreement.

Likelihood of Completion of the Merger. The PSEG board of directors considered the likelihood that the merger will be completed on a timely basis, including the likelihood that the merger will receive all necessary regulatory approvals without unacceptable conditions. The PSEG board of directors took note of the closing condition in the merger agreement that neither PSEG nor Exelon is required to complete the merger if any governmental authority has entered a "burdensome order" in connection with the required statutory approvals. (See "The Merger Agreement—Covenants" for a description of this term.)