

Accounting Treatment

The merger will be accounted for as a purchase by Exelon under accounting principles generally accepted in the United States. Under the purchase method of accounting, the assets and liabilities of PSEG will be recorded, as of completion of the merger, at their respective fair values and added to those of Exelon. The reported financial condition and results of operations of Exelon issued after completion of the merger will reflect PSEG's balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of PSEG. Following completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments, including increased amortization and depreciation expense for acquired assets.

Material United States Federal Income Tax Consequences of the Merger

General. The following discussion addresses the material United States federal income tax consequences of the exchange of shares of PSEG common stock for shares of Exelon common stock pursuant to the merger. This discussion, insofar as it relates to United States federal income tax law and legal conclusions with respect thereto, represents the opinion of each of Sidley Austin Brown & Wood LLP, legal counsel to Exelon, and Pillsbury Winthrop Shaw Pittman LLP, legal counsel to PSEG. The opinions of counsel are based, in part, upon customary written factual representations received from Exelon and PSEG, which factual representations counsel has assumed to be true and correct.

The following discussion is not binding on the IRS. It is based on the Internal Revenue Code, applicable United States Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this joint proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. The tax consequences under foreign laws, United States state and local laws and United States federal laws other than United States federal income tax laws are not addressed.

This discussion addresses only those holders of shares of PSEG common stock that hold their shares as capital assets and does not address all aspects of United States federal income taxation that might be relevant to a holder of shares of PSEG common stock in light of that shareholder's particular circumstances or to a shareholder subject to special rules, such as:

- a shareholder that is not a citizen or resident of the United States for United States federal income tax purposes and otherwise not a "United States person" for United States federal income tax purposes;
- a financial institution or insurance company;
- a mutual fund;
- a tax-exempt organization;
- a broker or dealer in securities or foreign currencies;
- a trader in securities that elects to apply a mark-to-market method of accounting;
- a shareholder that holds its PSEG common stock as part of a hedge, appreciated financial position, straddle or conversion transaction; or
- a shareholder that acquired its PSEG common stock pursuant to the exercise of options or otherwise as compensation.

If a partnership holds shares of PSEG common stock, the United States federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the

partnership. Partners of a partnership that holds shares of PSEG common stock should consult their tax advisors.

Holders of shares of PSEG common stock are urged to consult their tax advisors as to the specific tax consequences to them of the merger, including the applicability and effect of federal, state, local and foreign income and other tax laws in light of their particular circumstances.

United States Federal Income Tax Consequences of the Merger. Each of Sidley Austin Brown & Wood LLP, legal counsel to Exelon, and Pillsbury Winthrop Shaw Pittman LLP, legal counsel to PSEG, has delivered its opinion which provides that the merger will be treated for United States federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code and that each of Exelon and PSEG will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code. Assuming that the foregoing opinions are correct, the following are the material United States federal income tax consequences of the exchange of shares of PSEG common stock pursuant to the merger:

- a holder of shares of PSEG common stock will not recognize any gain or loss upon the exchange of the holder's shares of PSEG common stock for shares of Exelon common stock pursuant to the merger, except that gain or loss will be recognized on the receipt of cash in lieu of a fractional share of Exelon common stock;
- a holder of shares of PSEG common stock will have a tax basis in the shares of Exelon common stock received pursuant to the merger equal to the tax basis of the shares of PSEG common stock surrendered by the shareholder pursuant to the merger, reduced by any tax basis of the shares of PSEG common stock surrendered pursuant to the merger that is allocable to a fractional share of Exelon common stock for which cash is received;
- the holding period for shares of Exelon common stock received in exchange for shares of PSEG common stock pursuant to the merger will include the holding period for the shares of PSEG common stock surrendered in exchange for shares of Exelon common stock; and
- to the extent that a holder of shares of PSEG common stock receives cash in lieu of a fractional share of Exelon common stock, the shareholder will be required to recognize gain or loss equal to the difference between (1) the amount of cash received and (2) the tax basis of the shares of PSEG common stock surrendered pursuant to the merger that is allocable to the fractional share of Exelon common stock for which cash is received. This gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period for the PSEG common stock exchanged for the fractional share of Exelon common stock is more than one year at the completion of the merger.

It is a condition to the obligation of each of Exelon and PSEG to complete the merger that, at the closing of the merger, it receive a separate opinion of Sidley Austin Brown & Wood LLP, legal counsel to Exelon, and Pillsbury Winthrop Shaw Pittman LLP, legal counsel to PSEG, respectively (or, in either case, another law firm of national standing), substantially to the same effect as the opinions described above. Neither Exelon nor PSEG intends to waive this condition.

Each of the opinions described above is or will be based, in part, on customary assumptions and representations that have been or will be received from Exelon and PSEG, including those contained in the merger agreement and in certificates of officers of Exelon and PSEG, each of which must be accurate as of the effective time of the merger. If any of those assumptions or representations is inaccurate as of the effective time of the merger, the tax consequences of the merger could differ materially from those described in this joint proxy statement/prospectus.

Opinions of counsel neither bind the IRS or any court, nor preclude the IRS from adopting a contrary position. No ruling has been or will be sought from the IRS on the tax consequences of the

merger, and no assurance can be given that the IRS will not take, or that a court will not sustain, a position contrary to any of the tax consequences set forth above.

This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. **Accordingly, we urge each holder of shares of PSEG common stock to consult the holder's tax advisor to determine the particular federal, state, local or foreign income or other tax consequences of the merger to that shareholder.**

Regulatory Matters Relating to the Merger

General

To complete the merger, we need to obtain approvals or consents from, or make filings with a number of United States federal and state public utility, antitrust and other regulatory authorities as well as authorities in various foreign jurisdictions. The material United States federal and state approvals, consents and filings are described below. Additional approvals, including the approval of various foreign governmental authorities which may be required in connection with the indirect transfer of PSEG Global, may be required to complete the merger. We have also made it a condition to each party's obligation to complete the merger that certain orders or approvals not required by law are obtained. These approvals are collectively referred to in this joint proxy statement/prospectus as the "required statutory approvals."

It is a condition to consummation of the merger that "*final orders*" are obtained for these approvals and that such orders do not constitute "*burdensome orders*" (see "The Merger Agreement—Covenants" for a description of these terms). The merger agreement provides for a regulatory approval team to formulate the approach with respect to obtaining these approvals. The composition and authority of the regulatory approval team is described in greater detail under "The Merger Agreement—Covenants."

While we believe that we will receive the required statutory approvals and other clearances for the merger, there can be no assurance as to the timing of these approvals and clearances or our ability to obtain these approvals and clearances on satisfactory terms or otherwise. There can be no assurance that any of these approvals will be obtained or, if obtained, will not contain terms or conditions that could reasonably be expected to have a material adverse effect on the combined company following completion of the merger. Based on the current status of the regulatory approval process, the parties expect that, assuming all other conditions to completion of the merger are satisfied, the merger should be completed in the first quarter of 2006 if the regulatory proceedings before the New Jersey Board of Public Utilities and the Pennsylvania Public Utility Commission are settled and approved before the dates on which those state authorities are expected to rule on the merger in the absence of settlement, as discussed below. If early settlements are not reached and approved, then the parties expect that, assuming all other conditions are satisfied, the merger should be completed in the second quarter of 2006. If FERC were to hold a hearing on the application relating to the merger, the anticipated closing would be extended into mid-2006 or perhaps later.

State Approvals

New Jersey Board of Public Utilities. As a utility in the State of New Jersey, PSE&G is subject to the jurisdiction of the New Jersey Board of Public Utilities. Under Section 48:2-51.1 of New Jersey's public utility law, the NJBPU's approval is required in connection with the indirect transfer of the capital stock of PSE&G resulting from the merger. In considering the merger, the NJBPU is required to evaluate the impact of the merger in four areas:

- competition;

- the rates of ratepayers affected by the merger;
- the employees of the affected public utility; and
- the provision of safe and adequate utility service at just and reasonable rates.

On February 4, 2005, Exelon and PSE&G made the initial filing of their joint application with the NJBPU for approval of the indirect transfer of the capital stock of PSE&G resulting from the merger. On April 5, 2005, the administrative law judge in the proceeding before the NJBPU issued a prehearing order establishing a timetable for the regulatory approval process in New Jersey. The order provides for the administrative law judge to issue an initial decision by February 26, 2006. Thereafter, pursuant to the provision of the New Jersey Administrative Procedure Act, a decision of the full NJBPU can be expected by approximately March 23, 2006. The procedural schedule resulted from an agreement among Exelon, PSEG, the NJBPU staff, and the New Jersey Ratepayer Advocate pertaining to the procedural schedule to be followed during the course of the administrative process before the NJBPU.

In addition, while not required by law to complete the merger, Exelon and PSEG have made it a condition to the merger that PSE&G receive an order from the NJBPU allowing PSE&G to defer certain pension and other post-retirement benefit expenses that will be recognized in connection with the purchase accounting treatment of the merger, and that provides that PSE&G's rate recovery of pension and other post-retirement benefits will be calculated consistently with recovery of such amounts in the absence of the merger. For a description of this matter, see "Risk Factors—Risks Relating to the Merger—The combined company may be unable to obtain permission from the NJBPU to recover PSE&G's pension and other post-retirement benefit expenses, which could have an adverse effect on its cash flow and results of operations." On February 4, 2005, Exelon and PSE&G made the initial filing of their joint application with the NJBPU to obtain the order. The schedule for receiving this order is the same as that for the NJBPU's ruling on the merger.

New Jersey Department of Environmental Protection. Subsidiaries of PSEG own properties in New Jersey that may be subject to the New Jersey Industrial Site Recovery Act. The indirect transfer of those properties in connection with the merger may require approval by the NJDEP under ISRA. It is a condition to the completion of the merger that it be determined ISRA does not apply to the transfers or that the parties otherwise comply with the requirements of ISRA. The parties filed their application for a letter of non-applicability on March 31, 2005.

New York Public Service Commission. As an owner of generation facilities in the State of New York, a subsidiary of PSEG Power is subject to the jurisdiction of the New York Public Service Commission. Under Section 70 of the New York Public Service Law, the NYPSC's written consent is required in connection with the indirect transfer of ownership interests in such subsidiary of PSEG Power in connection with the merger. Under Section 70 of the New York Public Service Law, the NYPSC must determine whether the merger is in the public interest. The parties filed their application for approval with the NYPSC on March 16, 2005.

Pennsylvania Public Utility Commission. PECO and PSE&G are subject to the jurisdiction of the Pennsylvania Public Utility Commission. The issuance to each of PECO and PSE&G of a certificate of public convenience and necessity by the PPUC may be required as a result of the indirect transfer of the capital stock of PSE&G in connection with the merger under Chapters 11, 22 and 28 of the Public Utility Code of Pennsylvania. The standard for approval is whether the transaction is necessary and proper for the service, accommodation, convenience or safety of the public. This standard has been applied by the PPUC to require that applicants demonstrate that the transaction will affirmatively promote the service, accommodation, convenience or safety of the public in some substantial way. In

addition, under provisions enacted as part of Pennsylvania's electric and natural gas restructuring legislation, the PPUC must consider:

- whether a proposed transaction is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which would prevent retail electric or natural gas customers in Pennsylvania from obtaining the benefits of a properly functioning and workable competitive retail electric or natural gas market; and
- the effect of the proposed transaction on the natural gas distribution company employees and any authorized collective bargaining agent.

On February 4, 2005, PECO and PSE&G made the initial filing of their joint application for approval by the PPUC under the Public Utility Code of Pennsylvania or a determination that Chapters 11, 22 and 28 are not applicable to the merger. On March 30, 2005, the administrative law judge in the proceeding before the PPUC issued a prehearing order establishing a timetable for the regulatory approval process in Pennsylvania, which provides for the administrative law judge to issue an initial decision on November 7, 2005. Thereafter, a decision of the full PPUC can be expected in December 2005 or January 2006. The procedural schedule resulted from an agreement among Exelon, PSEG, and numerous parties in the case, including the PPUC Office of Trial Staff and the Pennsylvania Office of Consumer Advocate.

Illinois Commerce Commission. ComEd has filed a notice with respect to the merger with the Illinois Commerce Commission. On February 23, 2005, at a meeting of its Electricity Policy Committee, the ICC's General Counsel confirmed that it does not have jurisdiction over the matter and its approval is not required for the merger.

Connecticut. As the owner of generation stations in the State of Connecticut, PSEG Power Connecticut LLC, an indirect subsidiary of PSEG Power, is subject to the jurisdiction of the Connecticut Siting Council under Connecticut public utility laws and the Connecticut Department of Environmental Protection under Connecticut environmental law. The indirect transfer of the ownership interests in these entities may require the approval of the Connecticut Department of Environmental Protection under Connecticut environmental law and will require the approval of the Connecticut Siting Council under Connecticut public utility laws. The parties received approval on March 16, 2005 from the CSC.

Public Utility Holding Company Act

Exelon is a registered holding company under PUHCA subject to the jurisdiction of the SEC thereunder. Exelon's acquisition of 100% of the common stock of PSEG will require approval by the SEC under Sections 9 and 10 of PUHCA.

Under the applicable standards of PUHCA, the SEC is directed to approve the merger unless it finds that:

- the merger would tend towards interlocking relations or a concentration of control detrimental to the public interest or the interest of investors or consumers;
- the consideration to be paid in connection with the merger is not reasonable; or
- the merger would unduly complicate the capital structure of Exelon's holding company system or would be detrimental to the public interest, the interest of investors or consumers or the proper functioning of Exelon's holding company system.

To approve the merger, the SEC must also find that the merger complies with state law, tends towards the economic and efficient development of an integrated public utility system and otherwise

conforms to PUHCA's integration and corporate simplification standards. The parties filed their application with the SEC on March 16, 2005.

In addition, SEC approval may be required under PUHCA in order for Exelon to own certain assets of PSEG Energy Holdings following completion of the merger.

Nuclear Regulatory Commission

PSEG Power holds a NRC operating license for its Salem and Hope Creek nuclear generating facilities. This license authorizes PSEG Power to own and/or operate its nuclear generating facilities. The Atomic Energy Act provides that a license may not be transferred or, in any manner disposed of, directly or indirectly, through transfer of control of any license unless the NRC finds that the transfer complies with the Atomic Energy Act and consents to the transfer. Therefore, the consent of the NRC is required for the transfer of control pursuant to the merger of the license held by PSEG Power. The NRC will consent to the transfer if it determines that:

- the proposed transferee is qualified to be the holder of the license; and
- the transfer of the license is otherwise consistent with applicable provisions of laws, regulations and orders of the NRC.

The parties filed their application with the NRC on March 8, 2005.

Federal Energy Regulatory Commission

Each of Exelon and PSEG has public utility subsidiaries subject to the jurisdictions of FERC under the Federal Power Act. Section 203 of the Federal Power Act provides that no public utility may sell or otherwise dispose of its jurisdictional facilities, directly or indirectly merge or consolidate its facilities with those of any other person, or acquire any security of any other public utility, without first having obtained authorization from FERC.

FERC has stated in its 1996 utility merger policy statement that, in analyzing a merger under Section 203, it will evaluate the following criteria:

- the effect of the merger on competition in wholesale electric power markets, utilizing an initial screening approach derived from the Department of Justice/Federal Trade Commission-Initial Merger Guidelines to determine if a merger will result in an increase in an applicant's market power;
- the effect of the merger on the applicants' FERC jurisdictional ratepayers; and
- the effect of the merger on state and federal regulation of the applicants.

On February 4, 2005 Exelon and PSEG made the initial filing of their application for approval with FERC. Included in the filing was the parties' market concentration mitigation plan. The market concentration mitigation plan submitted on February 4 contemplated (1) the divestiture of fossil fuel generating facilities with 2,900 MW of generating capacity and (2) the transfer of control of 2,600 MW of baseload nuclear capacity through either long-term firm baseload energy sales contracts or an annual auction referred to in this joint proxy statement/prospectus as a virtual divestiture. Approximately 50 intervenors, including governmental, consumer, industry and policy groups, intervened in the proceedings before FERC, approximately 20 of the intervenors filed protests, and several of those parties requested that FERC hold hearings on the proposed merger. On May 9, 2005, Exelon and PSEG filed a supplement to their February 4 filing with FERC, responding to objections and concerns raised by the intervenors. In the supplementary filing on May 9, Exelon and PSEG proposed that if FERC approved the merger without an evidentiary hearing, Exelon and PSEG would divest at least 1,100 MW of additional fossil fuel generation capacity. Exelon and PSEG also proposed to invest

approximately \$25 million in new transmission projects over five years if the merger is approved by FERC without a hearing. Exelon and PSEG also proposed to eliminate restrictions on which entities may purchase divested generation and reduce the proposed period of time allowed for divestiture following the closing of the merger, and proposed an independent market monitor for the virtual divestitures. The divestitures of generation proposed in the May 9 filing with FERC, in combination with the 2,900 MW of fossil capacity divestiture and the 2,600 MW of baseload nuclear capacity virtual divestiture proposed in the February 4 filing, results in a total of 6,600 MW of capacity proposed for mitigation. Exelon and PSEG have not offered to divest any nuclear generating facilities and do not anticipate doing so.

Exelon and PSEG currently expect that the FERC schedule relating to approval under Section 203 will not impact the anticipated timing of closing of the merger. However, as indicated above, several intervenors in the FERC proceeding, including the NJBPU, have requested that FERC hold hearings on the application relating to the merger. If FERC were to hold hearings with respect to the merger the approval process would extend the anticipated closing into mid-2006 or perhaps later.

In addition, while not required by the Federal Power Act, Exelon and PSEG have made it a condition to completion of the merger that FERC approve under Section 205 of the Federal Power Act the sale by the public utility subsidiaries of the combined company of wholesale power and related services at market-based rates.

Antitrust

Under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the merger cannot be completed until both Exelon and PSEG file a notification of the proposed transaction with the Antitrust Division of the United States Department of Justice and the Federal Trade Commission and the specified waiting periods have expired or been terminated. The parties filed the required notification on March 4, 2005. The parties have been informed that the Antitrust Division of the DOJ will review the case and FTC will not. On March 23, Exelon and PSEG received a letter from the Antitrust Division of the DOJ requesting additional information pertaining to the merger. Exelon and PSEG are in the process of responding to the request for additional information. The formal request for additional, specific information supplements information already provided in the original HSR filing. The DOJ request extends the waiting period under HSR, and the period of DOJ review of the proposed merger, for a period of 30 days after Exelon and PSEG provide the information requested by DOJ. The extension of the HSR waiting period is not expected to impact the anticipated closing date of the merger.

At any time before the merger is completed, either the Antitrust Division, or the FTC could challenge or seek to block the merger under the antitrust laws, as it deems necessary or desirable in the public interest. Other competition promoting agencies with jurisdiction over the merger could also initiate action to challenge or block the merger. In addition, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. Based upon an examination of information available relating to the businesses in which the companies are engaged, Exelon and PSEG believe, with the market concentration mitigation plan they have proposed, that completion of the merger will not violate United States or applicable foreign antitrust laws. However, Exelon and PSEG cannot be sure that a challenge to the merger will not be made or that, if a challenge is made, Exelon and PSEG will prevail.

The merger may also be subject to review by the governmental authorities of various other jurisdictions under the antitrust laws of those jurisdictions.

There can be no assurance that the reviewing authorities will permit the applicable statutory waiting periods to expire or that the reviewing authorities will terminate the applicable statutory waiting

periods at all or without restrictions or conditions that would have a material adverse effect on the combined company if the merger were completed. These restrictions and conditions could include mandatory licenses, sales or other dispositions of assets, divestitures, or the holding separate of assets, businesses or PSEG capital stock.

IRS Private Letter Ruling Regarding Nuclear Decommissioning Trust Funds

United States Treasury regulations generally provide for the nonrecognition of gain or loss for United States federal income tax purposes with respect to the transfer of certain decommissioning trust funds maintained by nuclear power plant owners in connection with the transfer of an interest in a nuclear power plant. The precise application of these Treasury Regulations in the context of the merger, however, is not free from doubt. Therefore, Exelon and PSEG have agreed to seek a ruling from the IRS confirming that no gain or loss will be recognized for United States federal income tax purposes with respect to the transfer of PSEG's decommissioning trust funds as a result of the merger.

Corporate Restructuring

Subject to receipt of necessary regulatory approvals, Exelon and PSEG intend to pursue a restructuring of their corporate organizations after completion of the merger. In general, this restructuring will involve:

- PSE&G becoming a direct subsidiary of Exelon Energy Delivery, LLC; thereafter, PECO, ComEd and PSE&G will be separate indirect subsidiaries of Exelon and will continue to be regulated public utilities;
- Combining PSEG Power and Exelon Generation into one entity and combining certain of PSEG Power's subsidiaries with that combined entity; and
- PSEG Services selling its assets to Exelon Services, with Exelon Services providing central services to the combined company and its subsidiaries.

By virtue of the merger, PSEG Energy Holdings will become a direct subsidiary of the combined company.

The companies may modify these restructuring plans to adapt to changing regulatory and competitive conditions. Completion of the merger is not conditioned on the consummation of, or receipt of regulatory approval for, any portion of these corporate restructuring plans.

Appraisal Rights

Neither Exelon nor PSEG shareholders are entitled to appraisal rights in connection with the merger under the Pennsylvania Business Corporation Law or the New Jersey Business Corporation Act, respectively.

Federal Securities Laws Consequences; Stock Transfer Restriction Agreements

All shares of Exelon common stock received by PSEG shareholders pursuant to the merger will be freely transferable, except that shares of Exelon common stock received by persons who are deemed to be "affiliates" of PSEG under the Securities Act of 1933, as amended, at the time of the PSEG annual meeting may be resold by them only in transactions permitted by Rule 145 under the Securities Act of 1933 or as otherwise permitted under the Securities Act of 1933, as amended. Persons who may be deemed to be affiliates of PSEG for such purposes generally include individuals or entities that control, are controlled by or are under common control with, PSEG, as the case may be, and include directors and certain executive officers of PSEG. The merger agreement requires that PSEG use reasonable best efforts to cause each affiliate to execute a written agreement to the effect that such persons will not

offer, sell or otherwise dispose of any of the shares of Exelon common stock issued to them pursuant to the merger in violation of the Securities Act of 1933, as amended, or the related SEC rules and regulations promulgated thereunder.

The registration statement of which this joint proxy statement/prospectus is a part does not cover any resales of the Exelon common stock to be received by the shareholders of PSEG upon completion of the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any such resale.

Listing on the New York Stock Exchange; Delisting and Deregistration of PSEG Common Stock

It is a condition to the merger that the shares of Exelon common stock issuable pursuant to the merger be approved for listing on the New York Stock Exchange, subject to official notice of issuance. Although not a condition to completion of the merger, Exelon currently intends to list the shares of Exelon common stock issued pursuant to the merger on the Chicago Stock Exchange and the Philadelphia Stock Exchange. If the merger is completed, PSEG common stock will cease to be listed on the New York Stock Exchange and its shares will be deregistered under the Securities Exchange Act of 1934, as amended.

THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary does not purport to describe all the terms of the merger agreement and is qualified by reference to the complete merger agreement which is attached as Annex A to this joint proxy statement/prospectus and incorporated by reference. All shareholders of Exelon and PSEG are urged to read the merger agreement carefully and in its entirety to understand the rights and obligations of Exelon and PSEG under the merger agreement.

The text of the merger agreement has been included to provide you with information regarding its terms. The terms of the merger agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the merger. The merger agreement contains representations and warranties Exelon and PSEG made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligation to complete the merger and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws.

General

The merger agreement provides for the merger of PSEG with and into Exelon, with Exelon continuing as the surviving corporation.

Closing Matters

Closing. Unless the parties agree otherwise, the closing of the merger will take place not later than the second business day after all closing conditions have been satisfied or waived. See "—Conditions" below for a more complete description of the conditions that must be satisfied or waived prior to closing.

Completion of the Merger. As soon as practicable after the satisfaction or waiver of the conditions to the merger, Exelon and PSEG will file articles of merger with the Department of State of Pennsylvania in accordance with the relevant provisions of the Pennsylvania Business Corporation Law and a certificate of merger with the Department of Treasury of New Jersey in accordance with the relevant provisions of New Jersey Business Corporation Act. The merger will become effective when the articles of merger and certificate of merger are filed or at such later time as Exelon and PSEG agree and specify in the articles of merger and the certificate of merger. The articles of merger and the certificate of merger will provide that Exelon's articles of incorporation will be amended upon completion of the merger so that its name is Exelon Electric & Gas Corporation.

We currently expect that the merger will be completed in either the first or second quarter of 2006 depending on whether the parties are able to reach early settlements in the NJBPU and PPUC proceedings. However, we cannot predict the actual timing. See "The Merger—Regulatory Matters Relating to the Merger—General."

Consideration to be Received Pursuant to the Merger; Treatment of Stock Options and PSEG Equity-Based Awards

The merger agreement provides that, upon completion of the merger:

- Each share of PSEG common stock issued and outstanding immediately prior to completion of the merger, but excluding shares of PSEG common stock owned by Exelon, PSEG or any of their respective subsidiaries, will be converted into the right to receive 1.225 shares of Exelon common stock.
- Each outstanding option to purchase shares of PSEG common stock granted under the PSEG 2004 Long-Term Incentive Plan, the PSEG 2001 Long-Term Incentive Plan or the PSEG 1989

Long-Term Incentive Plan, will be assumed by Exelon and substituted with an option to purchase shares of Exelon common stock. The number of shares of Exelon common stock subject to a substitute Exelon stock option will equal the number of shares of PSEG common stock subject to the PSEG stock option immediately prior to completion of the merger, multiplied by the exchange ratio, rounded down to the nearest whole share. The per share exercise price for the substitute Exelon stock option will equal the exercise price of the PSEG stock option immediately prior to completion of the merger divided by the exchange ratio, rounded up to the nearest whole cent. Substitute Exelon stock options will be exercisable on the same terms and conditions that applied immediately prior to completion of the merger, after giving effect to any acceleration of exercisability that occurs as a result of the merger.

- All other PSEG equity-based awards, including performance units, performance shares, restricted shares, restricted stock units and phantom stock will be assumed by Exelon and substituted with Exelon equity-based awards. The number of shares issuable upon exercise of those awards, and the exercise price of those awards, will be adjusted to give effect to the exchange ratio.
- All restrictions on shares of PSEG common stock and PSEG equity-based awards held by employees of PSEG or its subsidiaries immediately prior to completion of the merger, including all repurchase and forfeiture rights, will be assigned to Exelon, and the shares of Exelon common stock issued and such assumed PSEG equity-based awards will continue to be unvested and subject to the same restrictions which applied immediately prior to completion of the merger, after giving effect to any acceleration, lapse or other vesting occurring by operation of the merger.

As of April 30, 2005, there were 5,796,645 shares of PSEG common stock subject to outstanding PSEG stock options, with a weighted average exercise price of \$40.48, of which stock options with respect to 4,147,582 shares of PSEG common stock were vested as of that date. Of the remaining 1,649,133 unvested PSEG stock options, options with respect to 901,596 shares of PSEG common stock, with a weighted average exercise price of \$36.55, are scheduled to vest in accordance with their terms prior to December 31, 2005. Of the 747,537 balance of unvested PSEG stock options, options with respect to 435,429 shares of PSEG common stock, with a weighted average exercise price of \$42.79, will vest as a result of the approval by PSEG shareholders of the merger agreement or the completion of the merger.

Exchange of Certificates Pursuant to the Merger

Before completion of the merger, Exelon will appoint Equiserve, or another entity selected by Exelon and reasonably satisfactory to PSEG, as exchange agent to handle the exchange of PSEG stock certificates for the certificates representing shares of Exelon common stock and all cash and property to which PSEG shareholders may be entitled relating to dividends and distributions or cash in lieu of fractional shares. As soon as practicable after completion of the merger, the exchange agent will send a letter of transmittal to each former PSEG shareholder who holds one or more stock certificates. The letter of transmittal will contain instructions explaining the procedure for surrendering PSEG stock certificates. You should not return stock certificates with the enclosed proxy card.

PSEG shareholders who surrender their stock certificates, together with a properly completed letter of transmittal, will receive a certificate representing that number of shares of Exelon common stock into which their shares of PSEG common stock were converted pursuant to the merger.

After completion of the merger, each certificate that previously represented shares of PSEG common stock will only represent the right to receive:

- the certificates representing the shares of Exelon common stock into which those shares of PSEG common stock have been converted;
- cash in lieu of any fractional share of Exelon common stock; and

- dividends or other distributions, if any, of Exelon common stock to which PSEG shareholders are entitled under the terms of the merger agreement.

Exelon will not pay dividends declared with a record date on or after completion of the merger to any holder of any PSEG stock certificates until the holder surrenders PSEG stock certificates. However, once those certificates are surrendered, Exelon will pay to the holder, without interest, upon the earlier of such surrender and the payment date with respect to such dividends, any dividends that have been declared and paid after the closing date of the merger on the shares into which those PSEG shares have been converted.

Fractional Shares

No fractional shares of Exelon common stock will be issued pursuant to the merger. Instead, the exchange agent will pay each of those PSEG shareholders who would otherwise have been entitled to a fractional share of Exelon common stock an amount in cash determined by multiplying the last reported sale price per share of Exelon common stock on the New York Stock Exchange on the date of completion of the merger by the fractional interest of a share of Exelon common stock to which such holder would otherwise be entitled.

Listing of Exelon Stock

Approval for listing on the New York Stock Exchange of the shares of Exelon common stock issuable to PSEG shareholders pursuant to the merger, subject only to official notice of issuance, is a condition to the obligations of Exelon and PSEG to complete the merger.

Covenants

We have each undertaken certain covenants in the merger agreement concerning the conduct of our respective businesses from the date the merger agreement was signed until the earlier of the date of completion of the merger and the date of the termination of the merger agreement. The following summarizes the more significant of these covenants:

No Solicitation. PSEG has agreed that it will not and will not permit its subsidiaries or its or any of its subsidiaries respective officers, directors, employees, advisors, representatives or agents to:

- solicit, initiate or knowingly encourage or facilitate (including by way of furnishing non-public information) any inquires regarding or the making of any proposal which constitutes or that may reasonably be expected to lead to any "takeover proposal" of the type described below;
- enter into any letter of intent or agreement with respect to a takeover proposal;
- participate in any discussions or negotiations regarding a takeover proposal; or
- take any other action to facilitate any inquiries or the making of any proposal that constitutes, or that may reasonably be expected to lead to, any takeover proposal.

Under the merger agreement, PSEG agreed to cease all existing activities, discussions or negotiations as of the date of the merger agreement with any third parties with respect to any takeover proposal. PSEG also agreed to notify Exelon as promptly as practicable and in any event within 18 hours after it receives a takeover proposal or any information is sought with respect to a takeover proposal and to inform Exelon of the proposed material terms and conditions of any such proposal and the identity of the party making such proposal. PSEG has further agreed to keep Exelon informed on a current basis of the status and details of any takeover proposal or inquiry. PSEG has also agreed to provide Exelon with copies of all written materials delivered to PSEG by the party making the takeover proposal. PSEG also agreed to enforce all standstill agreements to which it or any of its subsidiaries is a party.

However, prior to the PSEG annual meeting, PSEG is permitted to participate in negotiations with, and furnish information (including non-public information) with respect to PSEG to, a third party making an unsolicited bona fide written takeover proposal, if:

- in the reasonable good faith judgment of the PSEG board of directors the takeover proposal constitutes a "*superior proposal*" of the type described below;
- the PSEG board of directors determines in its reasonable good faith judgment, after consultation with its outside counsel, that it is required by its fiduciary duties to participate in such negotiations or furnish such information;
- prior to PSEG furnishing any information (including non-public information) to a third party making such a superior proposal, the third party first signs a confidentiality agreement with PSEG containing confidentiality provisions no more favorable to the third party than those in the confidentiality agreement between Exelon and PSEG;
- prior to PSEG furnishing any such information to such third party or entering into negotiations with such a third party, PSEG gives Exelon at least three business days advance written notice of the identity of the third party and the proposed terms and conditions of such superior proposal;
- PSEG has provided Exelon with a copy of all written materials delivered to the third party making the superior proposal and a copy of all written materials delivered by such third party to PSEG; and
- PSEG has fully complied with the requirements described above under the heading "—No-Solicitation."

Additionally, the provision described above does not restrict PSEG from complying with Rules 14d-9 or 14e-2 under the Exchange Act. However, compliance with such rules will not limit or modify the effect that any action taken pursuant to such rules has under the merger agreement.

A "takeover proposal" means any inquiry, offer or proposal by any third party (other than Exelon and its affiliates) relating to any:

- acquisition or purchase from PSEG by any third party of 20% or more of the total outstanding voting securities of PSEG or any of its significant subsidiaries;
- tender offer or exchange offer that if consummated would result in any third party beneficially owning 20% or more of the total outstanding voting securities of PSEG or any of its significant subsidiaries;
- merger, consolidation, business combination, liquidation, recapitalization, dissolution or similar transaction involving PSEG or any of its significant subsidiaries; or
- direct or indirect acquisition or purchase of 20% or more of the assets of PSEG and its significant subsidiaries.

A "superior proposal" means any unsolicited bona fide written offer to acquire, directly or indirectly, for consideration consisting of cash and/or securities:

- more than 50% of the outstanding voting securities of PSEG; or
- all or substantially all the assets of PSEG,

and otherwise on terms the PSEG board of directors determines in its reasonable good faith judgment, after consultation with PSEG's financial advisors, to be more favorable to PSEG's shareholders from a financial point of view than the transactions contemplated by the merger agreement (including any proposal to amend the merger agreement) which is not conditioned on any financing and is reasonably likely to receive all required governmental approvals in the form of final orders by June 20, 2006 (as

may be extended) and is otherwise reasonably capable of being completed on the terms proposed (taking into account the ability to deliver any consideration to be paid in such transaction).

Board of Directors' Covenant to Recommend. PSEG has agreed that its board of directors will recommend the approval of the merger agreement to PSEG shareholders and neither such board of directors nor a committee thereof will:

- withdraw, qualify or modify in a manner adverse to Exelon such recommendation, its approval of the merger agreement and the merger or the PSEG board of directors' declaration that the merger agreement and the merger are advisable, fair to and in the best interests of PSEG and its shareholders;
- take any other action or make any other statement in connection with the PSEG annual meeting inconsistent with such declaration, approval or recommendation;
- approve or recommend, or propose to approve or recommend, any takeover proposal; or
- authorize PSEG or any of its subsidiaries to enter into an agreement with respect to a takeover proposal,

except pursuant to its right to terminate the merger agreement as described under the heading "—Termination of Merger Agreement."

Similarly, Exelon has agreed that its board of directors will recommend the issuance of shares of Exelon common stock as contemplated by the merger agreement and such board of directors will not withdraw, qualify or modify in a manner adverse to PSEG, such recommendation or its approval of the share issuance; the merger agreement and the merger or the Exelon board of directors' declaration that the merger agreement and the merger are advisable, fair to and in the best interests of Exelon and its shareholders, except to the extent that, in the reasonable good faith judgment of Exelon's board of directors failure to so withdraw, qualify or modify its recommendation would violate the fiduciary duties of Exelon's board of directors under applicable law provided that such board of directors may not withdraw, qualify or modify its recommendation after the Exelon annual meeting.

Operations of Exelon and PSEG Pending Closing. As explained below, we have each undertaken a separate covenant that places restrictions on ourselves and our respective subsidiaries until either completion of the merger or the termination of the merger agreement.

Restrictions on Exelon's Business Pending Closing. In general, until either the closing of the merger or the termination of the merger agreement, Exelon and its subsidiaries are required to carry on their businesses in all material respects in the ordinary course as currently conducted and to use reasonable best efforts to preserve their business organization intact, maintain their material permits, and preserve their relations and goodwill with governmental authorities and with their employees, customers, suppliers, distributors, creditors, lessors, licensors, licensees and others having ongoing business relationships with them to the end that their goodwill and ongoing businesses be unimpaired at the effective time of the merger. Exelon also has agreed that (subject to specified exceptions and except as expressly contemplated by the merger agreement), without the prior written consent of PSEG (which consent will not be unreasonably withheld or delayed), it will not and will not permit any of its subsidiaries to:

- declare, set aside or pay any dividends on, or make any other distributions in respect of, any capital stock of Exelon or its subsidiaries, other than (1) dividends and distributions made by a direct or indirect subsidiary of Exelon to such subsidiary's parent, (2) regular quarterly cash dividends and distributions in accordance with Exelon's stated dividend policy and with record dates and payment dates consistent with Exelon's past dividend practice and (3) regular cash dividends and distributions with respect to preferred stock of Exelon or its subsidiaries in accordance with the terms thereof as of December 20, 2004;

- split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in substitution for shares of its capital stock;
- purchase, redeem or otherwise acquire any shares of capital stock of Exelon or any subsidiary or any other securities thereof or any rights, warrants or options to acquire, any such shares or other securities (other than the purchase of shares of Exelon common stock in the open market pursuant to the Exelon Employee Stock Purchase Plan and Exelon Dividend Reinvestment Plan);
- issue, deliver, pledge, encumber, sell, dispose of or grant any shares of capital stock of Exelon or its subsidiaries, any other voting securities or equity equivalent or any securities convertible into or options, warrants or rights to acquire, any such shares, voting securities, equity equivalent or convertible securities, or any stock appreciation rights other than (1) the issuance of shares of Exelon common stock upon the exercise of Exelon stock options and Exelon equity-based awards outstanding as of December 20, 2004 or upon exercise of Exelon stock options and Exelon equity-based awards granted in accordance with the merger agreement or pursuant to the terms of any compensation agreement, (2) the award of specified amounts of Exelon stock options and Exelon equity-based awards, (3) the issuance of shares of Exelon common stock pursuant to Exelon's Employee Stock Purchase Plan and Dividend Reinvestment Plan in accordance with such plans' respective terms, (4) issuances or transfers of shares of any subsidiary of Exelon to such subsidiary's parent and (5) the issuance of Exelon phantom shares;
- amend Exelon's Amended and Restated Articles of Incorporation other than to increase its authorized capital stock;
- amend Exelon's Amended and Restated By-laws or the charter, by-laws or other comparable organizational documents of any subsidiary of Exelon other than in a manner that is not adverse to the merger and not inconsistent with any of Exelon's obligations under the merger agreement;
- acquire any assets other than in the ordinary course of business consistent with past practice or pursuant to capital expenditures permitted under the merger agreement or acquire or agree to acquire a substantial portion of the assets of or equity in any entity or make investments in any entity other than acquisitions and investments that do not exceed \$10 million individually or \$50 million in the aggregate (including the value of indebtedness assumed) in any consecutive 12 month period and would not reasonably be expected to prevent or materially delay the ability of Exelon or PSEG to obtain the required statutory approvals;
- except to the extent required by applicable law or any benefit plan or collective bargaining agreement, with respect to any current or former employee, officer or director (1) grant any increase in compensation other than in the ordinary course of business, consistent with past practice, (2) grant any increase in severance or termination pay other than increases that are consistent with past practice and do not in the aggregate result in a material increase in benefits or compensation expenses, (3) enter into or amend any compensation agreement, (4) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or benefit plan (other than as required to obtain a determination from the IRS that such plan is a Qualified Plan or a renewal on substantially similar terms) or (5) take any action to accelerate any rights or benefits under any collective bargaining agreement, benefit plan or compensation agreement;
- make any material change in accounting methods, principles or practices except as required by generally accepted accounting principles or by Exelon's independent auditors;
- sell, lease (as lessor), license or otherwise dispose of or subject to any lien (other than liens created in connection with the refinancing of Exelon's debt that are no less favorable to Exelon and its subsidiaries than those liens that were created in connection with the Exelon debt being refinanced) any of its properties or assets that are material, individually or in the aggregate, to

Exelon and its subsidiaries, taken as a whole, other than sales of excess or obsolete assets in the ordinary course of business consistent with past practice and except to the extent necessary to obtain any required statutory approval;

- except in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, guarantee any such indebtedness or make any loans, advances or capital contributions to, or other investments in, any individual or entity other than (1) in connection with a refinancing on commercially reasonable terms and borrowings under revolving credit agreements or similar credit facilities in effect as of December 20, 2004, (2) indebtedness incurred by any subsidiary of Exelon under a loan to Exelon or any subsidiary of Exelon and (3) the assumption of indebtedness in connection with an acquisition or investment made in accordance with the merger agreement;
- other than pursuant to Exelon's capital expenditure budget or as required by any governmental authority to be in compliance with any material permit, make or agree to make any new capital expenditure or expenditures which, individually, is in excess of \$15 million or, in the aggregate, are in excess of \$300 million in any consecutive 12 month period;
- engage in any activities which would cause a change in Exelon's status under PUHCA;
- enter into any power agreement other than any power agreement entered into in the ordinary course of business that does not exceed (1) a notional value of purchase and/or sale of energy commitments of \$300 million, (2) a fixed notional value of purchase and/or sale of capacity of \$25 million, (3) a notional value for the underlying sale of options of \$100 million and (4) a notional value for the aggregate premiums paid in a calendar year for the purchase of options of \$50 million unless Exelon consults with, and obtains the prior written consent of, PSEG regarding such power agreement;
- amend or modify Exelon's trading guidelines rendering them less restrictive than those in effect as of December 20, 2004, or terminate Exelon's trading guidelines unless Exelon adopts new trading guidelines that are at least as restrictive as those in effect as of December 20, 2004;
- violate its trading guidelines or permit its net trading positions to be outside such guidelines' risk parameters;
- take any action that would, individually or in the aggregate, reasonably be expected to make Exelon New England Holdings, LLC's obligations recourse to Exelon or any of its other subsidiaries or would reasonably be expected to make it necessary for Exelon to contribute any cash, other assets or services to facilitate the operation of Exelon New England Holdings or its subsidiaries;
- adopt a plan of complete or partial liquidation or dissolution of Exelon or any of its significant subsidiaries; or
- commit or agree to take any of the foregoing actions.

Restrictions on PSEG's Business Pending Closing. In general, until either the closing of the merger or the termination of the merger agreement, PSEG and its subsidiaries are required to carry on their businesses in all material respects in the ordinary course as currently conducted and to use reasonable best efforts to preserve their business organization intact, maintain their material permits, and preserve their relations and goodwill with governmental authorities and with their employees, customers, suppliers, distributors, creditors, lessors, licensors, licensees and others having ongoing business relationships with them to the end that their goodwill and ongoing businesses be unimpaired at the effective time of the merger. PSEG also has agreed that (subject to specified exceptions and except as expressly contemplated by the merger agreement), without the prior written consent of Exelon (which

consent will not be unreasonably withheld or delayed), it will not and will not permit any of its subsidiaries to:

- declare, set aside or pay any dividends on, or make any other distributions in respect of, any capital stock of PSEG or its subsidiaries, other than (1) dividends and distributions made by a direct or indirect subsidiary of PSEG to such subsidiary's parent, (2) regular quarterly cash dividends and distributions in accordance with PSEG's stated dividend policy with record dates and payment dates consistent with PSEG's past dividend practice and (3) regular cash dividends and distributions with respect to preferred stock of PSEG or its subsidiaries in accordance with the terms thereof as of December 20, 2004;
- split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in substitution for shares of its capital stock;
- purchase, redeem or otherwise acquire any shares of capital stock of PSEG or any subsidiary or any other securities thereof or any rights, warrants or options to acquire, any such shares or other securities;
- issue, deliver, pledge, encumber, sell, dispose of or grant any shares of capital stock of PSEG or its subsidiaries, any other voting securities or equity equivalent or any securities convertible into or options, warrants or rights to acquire, any such shares, voting securities, equity equivalent or convertible securities, or any stock appreciation rights other than (1) the issuance of shares of PSEG common stock upon the exercise of PSEG stock options and PSEG equity-based awards outstanding as of December 20, 2004 or upon exercise of PSEG stock options or PSEG equity-based awards granted in accordance with the merger agreement or pursuant to the terms of any compensation agreement, (2) the award of specified amounts of PSEG stock options and PSEG equity-based awards, (3) issuances by a direct or indirect subsidiary of PSEG to its parent, (4) the issuance of shares upon settlement of forward purchase contracts forming a part of PSEG equity units pursuant to the terms thereof as existing on December 20, 2004, (5) the issuance of shares of common stock pursuant to PSEG's stock purchase plans in accordance with such plans' respective terms and (6) the issuance of PSEG phantom shares and dividend equivalents which are payable in cash in the ordinary course of business consistent with past practice;
- amend PSEG's Certificate of Incorporation;
- amend PSEG's By-laws or the charter, by-laws or other comparable organizational documents of any subsidiary of PSEG other than in a manner that is not adverse to the merger and not inconsistent with any of Exelon's obligations under the merger agreement;
- acquire any assets other than in the ordinary course of business consistent with past practice or pursuant to capital expenditures permitted under the merger agreement or acquire or agree to acquire a substantial portion of the assets of or equity in any entity or make investments in any entity other than acquisitions and investments in assets and entities located and operating solely in the United States that do not exceed \$5 million individually or \$25 million in the aggregate (including the value of indebtedness assumed) in any consecutive 12 month period and would not reasonably be expected to prevent or materially delay the ability of PSEG or Exelon to obtain the required statutory approvals;
- except to the extent required by applicable law or any benefit plan or collective bargaining agreement, with respect to any current or former employee, officer or director (1) grant any increase in compensation other than in the ordinary course of business consistent with past practice, (2) grant any increase in severance or termination pay other than increases that are consistent with past practice and do not in the aggregate result in a material increase in benefits or compensation expenses, (3) enter into or amend any compensation agreement, (4) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or

benefit plan (other than as required to obtain a determination from the IRS that such plan is a Qualified Plan or a renewal on substantially similar terms) or (5) take any action to accelerate any rights or benefits under any collective bargaining agreement, benefit plan or compensation agreement;

- make any material change in accounting methods, principles or practices except as required by generally accepted accounting principles or by PSEG's independent auditors;
- sell, lease (as lessor), license or otherwise dispose of or subject to any lien (other than liens created in connection with the refinancing of PSEG's debt that are no less favorable to PSEG and its subsidiaries than those liens that were created in connection with the PSEG debt being refinanced) any of its properties or assets other than sales of excess or obsolete assets in the ordinary course of business consistent with past practice, sales of assets by PSEG Energy Holdings, PSEG Power or any of their subsidiaries, and certain other specified assets of PSEG on commercially reasonable terms, after having given Exelon five business days' prior notice;
- except in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, guarantee any such indebtedness or make any loans, advances or capital contributions to, or other investments in, any individual or entity other than (1) in connection with a refinancing on commercially reasonable terms and borrowings under revolving credit agreements or similar credit facilities in effect as of December 20, 2004, (2) indebtedness incurred by any subsidiary of PSEG under a loan to PSEG or any subsidiary of PSEG and (3) the assumption of indebtedness in connection with an acquisition or investment permitted by the merger agreement (except that neither Energy Holdings nor any of its subsidiaries may take any such action);
- other than pursuant to PSEG's capital expenditure budget or as required by any governmental authority to be in compliance with any material permit, make or agree to make any new capital expenditure or expenditures which, individually, is in excess of \$10 million or, in the aggregate, are in excess of \$150 million in any consecutive 12 month period;
- engage in any activities not engaged in on the date hereof which would cause a change in PSEG's status as an exempt holding company under PUHCA;
- other than participation in the New Jersey Basic Generation Service auction in a manner consistent with past practice, enter into any power agreement other than any power agreement entered into in the ordinary course of business that does not exceed (1) a notional value of purchase and/or sale of energy commitments of \$150 million, (2) a fixed notional value of purchase and/or sale of capacity of \$25 million, (3) a notional value for the underlying sale of options of \$75 million and (4) a notional value for the aggregate premiums paid in a calendar year for the purchase of options of \$25 million unless PSEG consults with, and obtains the prior written consent of, Exelon regarding such power agreement;
- pay, discharge, settle, compromise or satisfy any material claims, liabilities, litigation or other obligations, other than the satisfaction of liabilities reflected in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of PSEG, or incurred in the ordinary and usual course of business consistent with past practice, or waive, release or assign any such material rights or claims;
- enter into, or, other than in the ordinary course of business consistent with past practice, modify or amend the terms of, any leveraged lease or financing contract with respect to any leveraged lease;
- take any action that would, individually or in the aggregate, reasonably be expected to make PSEG Energy Holdings' obligations recourse to PSEG or any of its other subsidiaries or that would reasonably be expected to make it necessary for PSEG or Exelon (after giving effect to

the merger) to contribute any cash, property or services to the operations of PSEG Energy Holdings or its subsidiaries;

- amend or modify PSEG's trading guidelines rendering them less restrictive than those in effect as of December 20, 2004, or terminate PSEG's trading guidelines without adopting new trading guidelines that are at least as restrictive as those in effect as of December 20, 2004;
- violate its trading guidelines or permit its net trading positions to be outside such guidelines' risk parameters;
- adopt a plan of complete or partial liquidation or dissolution of PSEG or any of its subsidiaries;
- retire, commit to retire or otherwise indicate an intention to retire any generation facility of PSEG or any of its subsidiaries; or
- commit or agree to take any of the foregoing actions.

Reasonable Best Efforts Covenant. We have agreed to cooperate with each other and to use our (and cause our respective subsidiaries to use) reasonable best efforts to take or cause to be taken all actions and do or cause to be done all things necessary, proper or advisable under the merger agreement and applicable laws to complete the merger and the other transactions contemplated by the merger agreement as soon as practicable, including obtaining as promptly as practicable all required statutory approvals in such a form as they would not constitute a "*burdensome order*" as such term is described below.

However, neither Exelon nor PSEG nor any of their affiliates will be required to divest or hold separate or otherwise take any action or commit to take any action that limits its freedom with respect to its business or the business of Exelon after giving effect to the merger, unless such action would not constitute a burdensome action.

A "*burdensome action*" is any action that:

- would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Exelon after giving effect to the merger; or
- involves:
- divesting or holding separate any nuclear generation assets of Exelon, PSEG or any of their respective subsidiaries or affiliates unless otherwise agreed by the Chief Executive Officers of each of Exelon and PSEG;
- implementing any auction or other process to transfer control over an amount of nuclear baseload capacity materially in excess of that amount of nuclear baseload capacity that is proposed by the parties' mutually agreed upon analysis of the mitigation sufficient to address the increased market concentration resulting from the merger as set forth in the "Appendix A" analysis filed at FERC for baseload capacity; or
- divesting or holding separate an amount of peaking or mid-merit generation assets or capacity of Exelon or PSEG or any of their respective subsidiaries or affiliates materially in excess of that amount of peaking and mid-merit assets or capacity that is proposed by the parties' mutually agreed upon analysis of the mitigation sufficient to address the increased market concentration resulting from the merger as set forth in the "Appendix A" analysis filed at FERC for peaking and mid-merit capacity.

Exelon and PSEG submitted their market concentration mitigation plan, including the "Appendix A" analyses for baseload capacity and peaking and mid-merit capacity, on February 4, 2005. On May 9, 2005, Exelon and PSEG filed a supplement to their February 4 filing, responding to objections and concerns raised by intervenors. In the supplementary filing Exelon and PSEG proposed an increase in the generation capacity that they are willing to divest if FERC approves the merger

without a hearing. See "The Merger—Regulatory Matters Relating to the Merger" for a description of this filing.

A "burdensome order" is any order that requires Exelon or PSEG to take or agree to take a burdensome action or an order that otherwise constitutes a burdensome action.

A "final order" is any action by the relevant governmental authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

Pursuant to the merger agreement, Exelon and PSEG have formed a regulatory approval team to formulate the approach to be taken with respect to obtaining the required statutory approvals. The team's chair is Exelon's Executive Vice President, Governmental & Environmental Affairs and Policy and its vice chair is PSEG's Senior Vice President and General Counsel. The regulatory approval team has three committees: an Illinois committee, a Pennsylvania committee and a New Jersey committee. The committees have primary responsibility for formulating the approach to be taken with respect to obtaining the required statutory approvals in their respective jurisdictions. The entire regulatory approval team, and not a committee thereof, will have primary responsibility for formulating the approach to be taken with respect to obtaining the other state and all federal required statutory approvals.

Neither Exelon nor PSEG will commit to make any concessions, agreements or undertakings with any governmental authority or third party in connection with obtaining the required statutory approvals unless such concession, agreement or undertaking has been approved by the regulatory approval team. If the chair and the vice-chair of the regulatory approval team do not agree on an action to be taken, they will refer the matter to the Chief Executive Officers of Exelon and PSEG. If the Chief Executive Officers do not agree, the committee or team with primary responsibility for obtaining such approval will decide which of the actions presented to the Chief Executive Officers will be taken so long as such action is otherwise consistent with the terms of the merger agreement.

Employee Matters. In the merger agreement, Exelon has agreed that, following the merger, it will:

- honor all PSEG benefit plans and all employment, severance, collective bargaining and change in control agreements entered into by PSEG prior to the date of the merger agreement;
- continue to provide individuals employed by PSEG or its subsidiaries prior to completion of the merger who remain employed by Exelon or its subsidiaries after completion of the merger employee benefits pursuant to the terms of the benefit plans maintained by PSEG prior to completion of the merger or pursuant to benefit plans maintained by Exelon providing for coverage and benefits which, in the aggregate, are no less favorable than those provided to employees of Exelon in positions comparable to such former PSEG employees;
- cause credits and debits to be transferred to any cafeteria benefit plan of Exelon in which any former PSEG employee becomes eligible to participate from any cafeteria plan PSEG maintained prior to completion of the merger for the applicable plan year;
- recognize prior service of employees with PSEG and its subsidiaries as service with Exelon and its subsidiaries for purposes of eligibility and vesting under any Exelon benefit plan that is a pension plan; and
- to the extent any employee of PSEG becomes eligible to participate in a Exelon benefit plan that is a "welfare plan," waive certain pre-existing conditions and waiting periods applicable to such employee under such Exelon benefit plan and provide such employee with credit for amounts paid toward out-of-pocket expenses and deductibles under an analogous PSEG benefit plan.

Indemnification and Insurance. Subject to applicable law, Exelon has agreed that after completion of the merger:

- all rights of current or former directors, officers, employees, agents or fiduciaries under benefit plans currently indemnified by PSEG or its subsidiaries will survive;
- any such person who becomes a director, officer, employee or fiduciary under a benefit plan of Exelon will be entitled to the indemnity rights and protections afforded to Exelon's directors, officers, employees and fiduciaries under benefit plans;
- advance expenses so long as such person has provided an undertaking to repay such advances if it is ultimately determined that such expenses cannot be reimbursed; and
- for a period of six years following consummation of the merger, maintain officers' and directors' liability insurance at least as favorable as PSEG's existing insurance so long as the annual premium for the insurance does not exceed 200% of the last annual premium that PSEG paid prior to the date of the merger agreement. If the annual premium of PSEG's existing insurance policy exceeds the 200% limitation, Exelon will maintain the maximum amount of coverage under a policy having the same deductible as is available for such 200% of PSEG's current annual premium.

Other Covenants and Agreements

Expenses. We have each agreed to pay our own costs and expenses incurred in connection with the merger and the merger agreement, with the exception that we will each pay 50% of any expenses incurred in connection with the parties' filing under the Hart-Scott-Rodino Act, the fees of Booz Allen Hamilton Inc. and printing and filing with the SEC the registration statement of which this joint proxy statement/prospectus forms a part.

Election to Exelon Board of Directors. Exelon has agreed that immediately after completion of the merger, it will increase the total number of members on the Exelon board of directors to 18 and appoint to its board of directors six directors of PSEG as designated by the Chief Executive Officer of PSEG to be allocated evenly among Class I, Class II and Class III of the Exelon board of directors. These appointments will be subject to applicable laws and regulations, including the Securities Exchange Act of 1934, as amended, and the New York Stock Exchange.

Adoption of Amended and Restated By-laws. Exelon has agreed that effective upon completion of the merger, it will adopt Amended and Restated By-laws to provide for certain matters relating to the Exelon board of directors, the Chief Executive Officer and headquarters for the three years following completion of the merger, referred to in this joint proxy statement/prospectus as the "transition period," including the following:

- upon completion of the merger, the Exelon board of directors will consist of 18 members, 12 of whom will be continuing Exelon directors and six of whom will be former PSEG directors;
- with respect to the first and second elections of directors during the transition period, the Exelon board of directors is required, subject to its fiduciary duties and applicable laws and regulations, to nominate for election the legacy PSEG directors (or their successors) whose class is standing for election and the legacy Exelon directors (or their successors) whose class is standing for election;
- during the transition period, the Exelon board of directors will, subject to its fiduciary duties and applicable laws and regulations, take any action necessary to ensure that any vacancy of a position on the Exelon board of directors previously held by a legacy PSEG director will be filled by a person nominated by the Exelon board of directors and approved by a majority of the legacy PSEG directors remaining on the Exelon board of directors, and that any vacancy of a position on the Exelon board of directors previously held by a legacy Exelon director be filled by

a person nominated by the Exelon board of directors and approved by a majority of the legacy Exelon directors remaining on the Exelon board of directors;

- upon completion of the merger, Mr. Ferland will become the non-executive Chairman of the Exelon board of directors;
- Mr. Ferland will serve as non-executive Chairman of the Exelon board of directors until the earlier of (1) March 31, 2007, his announced date of retirement, and (2) the date on which Mr. Ferland no longer serves as a director of Exelon;
- as non-executive Chairman of the Exelon board of directors, Mr. Ferland will preside at all meetings of the Exelon board of directors and will, in consultation with the Chief Executive Officer of Exelon, establish the agenda for board meetings and will have such other duties as may from time to time be requested by the Chief Executive Officer of Exelon;
- when Mr. Ferland ceases to serve as the non-executive Chairman of the Exelon board of directors, the Chief Executive Officer of Exelon will be appointed as Chairman of the Exelon board of directors and continue in such role for the duration of the transition period and thereafter as determined by the Exelon board of directors;
- for at least the transition period, Mr. Rowe will continue to serve as the President and Chief Executive Officer of Exelon in charge of general supervision over the business and operations of Exelon;
- the corporate headquarters of Exelon will continue to be in Chicago, Illinois;
- the headquarters of Exelon's power trading business will be in southeastern Pennsylvania and the headquarters of Exelon's generation business will be in Newark, New Jersey with headquarters of Exelon's nuclear generating business in southeastern Pennsylvania; and
- ComEd will maintain its headquarters in Chicago, Illinois, PECO Energy will maintain its headquarters in southeastern Pennsylvania and PSE&G will maintain its headquarters in Newark, New Jersey.

The proposed arrangement described above relating to the headquarters of subsidiaries and divisions of the combined company could be changed by agreement of Exelon and PSEG prior to the completion of the merger, if approved by the companies' boards of directors. However, the headquarters of PSE&G, PECO and ComEd will remain, respectively, in Newark, Philadelphia and Chicago. In addition, the parties expect that the headquarters of another significant business unit of the combined company will be located in Newark and the headquarters of another significant business unit will be located in southeastern Pennsylvania.

Agreement to Increase Dividend. The merger agreement permits each of us to continue to pay regular dividends to our respective shareholders in accordance with our previously announced dividend policies. Exelon has previously indicated it expects to maintain a dividend payout policy of 50% to 60% of earnings. On April 27, 2005, Exelon declared a second quarter dividend for 2005 of \$0.40 per share. On January 18, 2005, PSEG increased its first quarter dividend for 2005 to \$0.56 per share from \$0.55 per share, for an indicated annual dividend increase of \$0.04 per share for the year 2005. On April 19, 2005, PSEG declared a second quarter dividend for 2005 of \$0.56 per share. For the year 2006, PSEG will continue to evaluate its dividend payment and consider modest increases.

We have agreed to coordinate dividend declarations and the related record dates and payment dates so that our shareholders will not receive two dividends, or fail to receive one dividend, for any single calendar quarter. Accordingly, prior to completion of the merger, we may coordinate and amend our record dates and payment dates in order to effect this policy.

In addition, the merger agreement provides that, subject to applicable law and its board of directors fiduciary duties, Exelon will increase its quarterly dividend so that the first dividend paid after

completion of the merger is equal, on an exchange ratio adjusted basis, to the dividend PSEG shareholders received in the quarter immediately prior to completion of the merger, up to a maximum of \$0.47 per share of Exelon common stock. In addition, Exelon has agreed that as close to 30 days prior to the closing date of the merger as reasonably practicable it will inform PSEG of the amount of the dividend it intends to pay in the first quarter following completion of the merger. If this amount is less than the amount described above, PSEG is permitted under the merger agreement to make a one time cash dividend to its shareholders equal to the amount of shortfall, on an exchange ratio adjusted basis.

PSEG Equity Issuance. The merger agreement permits PSEG to issue in a public offering shares of PSEG common stock, or securities convertible into or exchangeable for shares of PSEG common stock, with an aggregate initial offering amount to the public of up to \$350 million if:

- such issuance is necessary for PSEG Power to maintain a credit rating of at least BBB from Standard & Poor's and Baa2 from Moody's;
- PSEG has consulted with Exelon as to alternative means by which to maintain such rating; and
- PSEG has given Exelon an opportunity to discuss with Standard & Poor's or Moody's, as applicable, the credit rating of PSEG Power and alternative proposals for maintaining that rating.

Other Covenants. The merger agreement contains certain other covenants, including covenants relating to public announcements and employee communications, access to information, state takeover laws and tax matters.

Representations and Warranties

The merger agreement contains customary representations and warranties, generally qualified by material adverse effect, made by each of us to the other. The representations and warranties relate to:

- corporate existence, qualification to conduct business and corporate standing and power;
- ownership of subsidiaries;
- capital structure;
- corporate authority to enter into, and carry out the obligations under, the merger agreement and enforceability of the merger agreement;
- absence of a breach of the certificate of incorporation, by-laws, law or material agreements as a result of the merger;
- required statutory approvals;
- filings with the SEC and other regulatory bodies;
- absence of certain changes or events;
- information supplied for use in this joint proxy statement/prospectus;
- compliance with laws;
- tax matters;
- litigation;
- employee benefit plans;

- labor matters;
- environmental matters;

- regulation as a utility;
- operations of nuclear power plants;
- regulatory proceedings;
- trading guidelines;
- intellectual property;
- required shareholder votes;
- inapplicability of anti-takeover statutes;
- payment of fees to finders or brokers in connection with the merger agreement;
- opinions of financial advisors;
- title to properties;
- material contracts; and
- the non-recourse nature of obligations of PSEG Energy Holdings and of Exelon New England Holdings.

As used in the merger agreement, the term "*material adverse effect*" or "*material adverse change*" means with respect to either Exelon or PSEG, as applicable, any event, effect, change or development (including, in the case of PSEG, with respect to its joint ventures) that, individually or when taken together with all other events, effects, changes or developments, is or would reasonably be expected to be, materially adverse to the financial condition, business, assets, liabilities, operations or results of operations of such company and its subsidiaries, taken as a whole, or has a material adverse effect on its ability to perform its obligations under the merger agreement or consummate the transactions contemplated by the merger agreement by June 20, 2006 (as may be extended). However, to the extent any event, effect, change or development is caused by or results from any of the following, it will not be taken into account in determining whether there has been (or would reasonably be expected to be) a "material adverse effect" or "material adverse change":

- factors affecting the economy or financial markets as a whole;
- factors affecting the electric energy market as a whole, except to the extent either party and its subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the electric energy market;
- the announcement of the execution of the merger agreement;
- any failure by Exelon or PSEG to meet any revenue or earnings predictions prepared by Exelon or PSEG, as the case may be, or revenue or earnings predictions of equity analysts or the receipt by Exelon or PSEG, or any of their respective subsidiaries of any credit ratings downgrade (it being understood that the facts or occurrences giving rise or contributing to any such effect, event, change or development which affect or otherwise relate to or result from the failure to meet revenue or earnings predictions prepared by the PSEG or Exelon, as the case may be, or revenue or earnings predictions of equity analysts or to the receipt of any credit ratings downgrade may be deemed to constitute, or be taken into account in determining whether there has been, or would reasonably be expected to be, a material adverse change or material adverse effect);
- changes in laws, rules or regulations of any governmental authority affecting the electric energy market as a whole except to the extent that PSEG and its subsidiaries, taken as a whole, or Exelon and its subsidiaries, taken as a whole, as the case may be, are materially and adversely

affected in a disproportionate manner as compared to comparable participants in the electric energy market;

- any loss, in and of itself, resulting from the sale of assets of PSEG Holdings or PSEG Power in accordance with the terms of the merger agreement or impairment charge, in and of itself, taken in relation to the assets of such entities identified for sale;
- any sale or disposition of assets that may be ordered by the SEC, as part of its review of the merger under PUHCA;
- any change in generally accepted accounting principles by the Financial Accounting Standards Board, the SEC or any other regulatory body; or
- any event, effect, change or development resulting from a breach by Exelon Generation of the operating services contract.

In addition, Exelon and PSEG have agreed that the tax and accounting treatment of certain transactions undertaken by Exelon and PSEG will not be considered to have had a material adverse effect, including those described in "Risk Factors—Risks Relating to the Business of the Combined Company—The Internal Revenue Service might successfully challenge certain leveraged lease transactions entered into by PSEG, which could have a material adverse impact on the combined company's operating results" and "Risk Factors—Risk Relating to the Business of the Combined Company—The IRS might successfully challenge certain tax positions taken by Exelon in connection with certain sale transactions, which could have a material adverse impact on the combined company's operating results."

Conditions

Our respective obligations to complete the merger are subject to the satisfaction of the following conditions:

- the approval of the merger agreement by PSEG shareholders and the approval by the Exelon shareholders of the issuance of shares of Exelon common stock as contemplated by the merger agreement;
- the approval for listing by the New York Stock Exchange of the Exelon common stock to be issued pursuant to the merger, subject to official notice of issuance;
- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act;
- the absence of any law, judgment, injunction or other order by a governmental authority that is in effect prohibiting completion of the merger and the absence of any proceeding by any governmental authority seeking such an order;
- the SEC having declared effective the Exelon registration statement, of which this joint proxy statement/prospectus forms a part, and the absence of a stop order issued by the SEC or initiated or threatened by the SEC seeking to suspend the effectiveness of the Exelon registration statement;
- the making of all necessary blue sky securities filings;
- the receipt of final orders for the required statutory approvals and the absence from such orders of any burdensome order; and
- the receipt of all other required governmental and regulatory consents, registrations, approvals, permits, except for those the failure of which to obtain would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on PSEG or on Exelon (assuming the merger had taken place).