Accretion/Dilution Analysis

Lehman Brothers analyzed and considered the impact of the merger on the estimated EPS and dividends per share of Exelon for the years 2006, 2007, 2008 and 2009, assuming the merger is completed at the exchange ratio of 1.225x, using the Exelon forward-looking financial information for 2005 through 2007 and extensions of that forward-looking financial information for 2008 through 2009 provided by Exelon's management and PSEG forward-looking financial information prepared by the management of PSEG, as adjusted by the management of Exelon and provided to Lehman Brothers by Exelon's management and including estimates of transaction synergies, for the period from January 1, 2006 through December 31, 2009.

Lehman Brothers assumed that, among other things:

- Exelon would be the acquirer for purchase accounting purposes;
- the estimated transaction synergies applicable to the combined company's businesses would be as provided by management of Exelon;
- the combined company's pro forma dividend would be such that PSEG shareholders would have the same projected dividend taking into account of the proposed exchange ratio;
- the merger would be tax-free to both Exelon and PSEG shareholders except to the extent of any additional cash received by PSEG shareholders for fractional shares or for any increase in projected dividends; and
- the merger would close on January 1, 2006.

Based on this analysis, the proposed transaction is expected to result in an increase in EPS when compared to Exelon's EPS on a stand-alone basis in the years 2006, 2007, 2008 and 2009. In addition, based on this analysis, the proposed transaction is also expected to result in an increase in dividends per share paid to Exelon shareholders of common stock, when compared to the dividends per share paid to Exelon shareholders of common stock on a stand-alone basis, in the years 2006, 2007, 2008 and 2009.

Lehman Brothers also analyzed and considered the impact of the merger on the estimated EPS of Exelon for the years 2006 and 2007, assuming the merger is completed at the exchange ratio of 1.225x. Estimated EPS for Exelon and PSEG for 2006 were based on consensus EPS of the Institutional Brokers Estimate System, referred to in this joint proxy statement prospectus as "I/B/E/S," and for 2007 were based on I/B/E/S consensus EPS for 2006 grown at the I/B/E/S long-term earnings per share growth estimates. The analysis took into account estimates of transaction synergies provided to Lehman Brothers by the management of Exelon. Based on this analysis, the proposed merger is expected to result in an increase in EPS when compared to Exelon's EPS on a stand-alone basis in the years 2006 and 2007.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The Exelon board of directors selected Lehman Brothers because of its expertise, reputation and familiarity with Exelon, PSEG and the utility industry generally and because its investment banking professionals have substantial expertise in transactions comparable to the merger.

As compensation for its services in connection with the merger, Exelon has agreed to pay Lehman Brothers a transaction fee of $15 million, which is payable in three equal installments. The first installment was paid following the announcement of the execution of the merger agreement, the second one will be due upon Exelon's shareholder approval of the issuance of shares of Exelon common stock as contemplated by the merger agreement, and the third installment will be due upon completion of the merger. Exelon has also agreed to reimburse Lehman Brothers for certain expenses incurred by Lehman Brothers, including fees of outside legal counsel, and to indemnify Lehman Brothers and related parties against liabilities arising out of Lehman Brothers' engagement and the rendering of its opinion. Lehman Brothers in the past has rendered investment banking services to Exelon, PSEG and their affiliates and received customary fees for such services. During the past two years, Lehman Brothers and its affiliates have received fees of approximately $3.4 million from Exelon and its affiliates for advisory, underwriting and other investment banking assignments exclusive of any fees received in connection with the merger, and approximately $7.8 million from PSEG and its affiliates.

In the ordinary course of its business, Lehman Brothers may participate in loans and actively trade in the debt or equity securities of Exelon and PSEG for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in those securities.

Opinion of PSEG's Financial Advisor

Pursuant to a letter agreement dated November 8, 2004, PSEG formally retained Morgan Stanley to provide it with certain financial advisory services in connection with the merger. At the meeting of the PSEG board of directors on December 20, 2004, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of December 20, 2004, and based upon and subject to the assumptions, qualifications and limitations discussed in its opinion, the exchange ratio under the merger agreement was fair, from a financial point of view, to holders of PSEG common stock.

The full text of Morgan Stanley's opinion, dated December 20, 2004, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering its opinion is attached as *Annex D* to this joint proxy statement/prospectus and is incorporated by reference into this joint proxy statement/prospectus. The summary of Morgan Stanley's fairness opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Shareholders should read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the board of directors of PSEG, addresses only the fairness from a financial point of the merger consideration to be received by holders of PSEG common stock pursuant to the merger agreement, and does not address any other aspect of the merger. Morgan Stanley's opinion does not constitute a recommendation to any shareholder of PSEG as to how such shareholder should vote with respect to the merger agreement.

In connection with rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly-available financial statements and other information of PSEG and Exelon;
- reviewed certain internal financial statements and other financial and operating data concerning PSEG and Exelon, prepared by the managements of PSEG and Exelon, respectively;
- reviewed certain financial projections of PSEG and Exelon and, in the case of Exelon, extensions thereof, prepared by the managements of PSEG and Exelon, respectively;
- discussed the past and then current operations and financial condition and the prospects of PSEG and Exelon with senior executives of PSEG and Exelon, respectively;
- reviewed the pro forma impact of the merger on various Exelon financial metrics;
- reviewed information relating to certain strategic, financial and operational benefits anticipated from the merger prepared by the managements of PSEG and Exelon with senior executives of PSEG and Exelon, respectively;
- discussed the strategic rationale for the merger with senior executives of PSEG and Exelon;

- reviewed the reported prices and trading activity for the PSEG common stock and the Exelon common stock;
- compared the financial performance of PSEG and Exelon and the prices and trading activity of the PSEG common stock and the Exelon common stock with that of certain other comparable publicly-traded companies and their securities;
- reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;
- participated in discussions and negotiations among representatives of PSEG and Exelon and their financial and legal advisors;
- reviewed the merger agreement, the operating services contract between Exelon Generation Company, LLC and PSEG Nuclear, LLC and certain related documents; and
- considered such other factors and performed such other analyses as it deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the financial projections and extensions thereof, including information relating to certain strategic, financial and operational benefits anticipated from the merger, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best then currently available estimates and judgments of the future financial performance of PSEG and Exelon. Morgan Stanley also relied on the assessments of senior management of PSEG and Exelon of the strategic rationale for the merger. In addition, Morgan Stanley assumed that the merger and the other transactions contemplated in the merger agreement would be consummated in accordance with the terms set forth in the merger agreement, including, among other things, that the merger would be treated as a tax-free reorganization, pursuant to the Internal Revenue Code of 1986, as amended. Morgan Stanley assumed that in connection with the receipt of all necessary regulatory approvals for the proposed merger, no restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of PSEG or of Exelon, nor was Morgan Stanley furnished with any such appraisals. Morgan Stanley is not a legal, regulatory or tax expert and relied on the assessments made by advisors to PSEG with respect to such issues. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of December 20, 2004.

In arriving at its opinion, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition of PSEG or any of its assets.

The following is a summary of the financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion, dated December 20, 2004. Some of these summaries include information in tabular format. In order to understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses.

In connection with its analysis, Morgan Stanley calculated the implied consideration to be paid for each share of PSEG common stock by multiplying the merger exchange ratio of 1.225 times the closing price of a share of Exelon common stock of $43.38 as of December 15, 2004 for a per share implied consideration of $53.14.

Historical Trading and Exchange Ratio Analysis. Morgan Stanley reviewed the historical trading ranges of PSEG and Exelon for various periods ending on December 15, 2004 and the resulting implied exchange ratios to provide it with background and perspective for how each company's stock has historically traded on a standalone basis and relative to each other.

Morgan Stanley noted that for the 52-week period ending December 15, 2004, the range of closing prices for PSEG common shares was $38.10 to $47.72. Morgan Stanley also noted that for the 52-week period ending December 15, 2004, the range of closing prices for Exelon common shares was $30.92 to $43.40. Morgan Stanley also observed the following:

Period Ending December 15, 2004	Average PSEG Price Per Share	Average Exelon Price Per Share	Historical Trading Ratio	Implied Premium at Merger Exchange Ratio
5 Trading Days Prior	$ 43.82	$ 42.56	1.03x	19.0%
10 Trading Days Prior	$ 43.57	$ 42.14	1.03x	18.5%
One Month Prior	$ 43.96	$ 42.06	1.05x	17.2%
Two Months Prior	$ 43.44	$ 40.99	1.06x	15.6%

Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was greater than the average prices per share for PSEG common stock listed above.

Comparable Public Companies Analysis. Morgan Stanley performed a comparable company analysis on PSEG and Exelon, which attempted to provide an implied value for PSEG and Exelon by comparing them to similar companies. For purposes of its analysis, Morgan Stanley reviewed and compared certain public and internal PSEG and Exelon financial information, ratios and available public market multiples relating to PSEG and Exelon to corresponding financial data for selected publicly-traded utility companies. Morgan Stanley selected these companies for its comparable company analysis of PSEG and Exelon based on its experience with companies in the utility industry and their relative similarity in size and business mix to that of PSEG and Exelon, respectively.

PSEG. The companies included in the PSEG comparable companies analysis were:

- Constellation Energy Group, Inc.
- Entergy Corporation
- Exelon Corporation
- FirstEnergy
- PPL Corporation

Morgan Stanley then reviewed both public and internal PSEG financial information to compare financial metrics of these companies to the following PSEG metrics:

- stock price to 2005 estimated EPS;
- stock price to 2006 estimated EPS; and
- Aggregate Value (defined as equity value plus estimated non-convertible debt, minority interest, capital lease obligations and preferred stock less cash and cash equivalents as of December 31, 2004) to the estimated 2006 EBITDA.

The following table reflects the results of the analysis and the corresponding multiples for PSEG based on representative ranges of median earnings and EBITDA estimates for these companies obtained from I/B/E/S, a data service that monitors and publishes a compilation of earnings estimates produced by selected research analysts on companies of interest to investors:

	Price to EPS		Aggregate Value to EBITDA
	2005E	**2006E**	**2006E**
Range derived from PSEG comparables	12.5x - 13.5x	11.5x - 12.5x	6.75x - 7.25x
PSEG multiples	13.5x	12.2x	7.6x

Applying a representative range of multiples derived from the comparable public companies analysis, Morgan Stanley calculated a range of implied equity values per share of PSEG with respect to PSEG's:

- stock price to 2005 estimated EPS;
- stock price to 2006 estimated EPS; and
- Aggregate Value to 2006 estimated EBITDA.

Based on this analysis, Morgan Stanley derived a range of implied equity values per share of PSEG common stock of $40.00 to $48.68. Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was greater than the range implied by the analysis.

Exelon. The companies included in the Exelon comparable companies analysis were:

- Constellation Energy Group, Inc.
- Entergy Corporation
- FirstEnergy
- PPL Corporation
- Public Service Enterprise Group Incorporated

Morgan Stanley then reviewed public financial information to compare financial metrics of market value of these companies to Exelon's public and internal financial metrics:

- stock price to 2005 estimated EPS;
- stock price to 2006 estimated EPS;
- Aggregate Value to 2005 estimated EBITDA; and
- Aggregate Value to 2006 estimated EBITDA.

The following table reflects the results of the analysis and the corresponding multiples for Exelon based on representative ranges of median I/B/E/S earnings and EBITDA forecasts:

	Price to EPS		Aggregate Value to EBITDA	
	2005E	**2006E**	**2005E**	**2006E**
Ranges derived from Exelon comparables	13.0x - 14.0x	12.0x - 13.0x	7.5x - 8.0x	7.25x - 7.75x

Exelon multiples	14.5x	13.4x	8.0x	7.7x

Applying a range of multiples derived from the comparable public companies analysis, Morgan Stanley calculated a range of implied equity values per share of Exelon with respect to Exelon's and based on public and internal Exelon financial information:

- stock price to 2005 estimated EPS;

- stock price to 2006 estimated EPS;
- Aggregate Value to 2005 estimated EBITDA; and
- Aggregate Value to 2006 estimated EBITDA.

Based on this analysis, Morgan Stanley derived a range of implied equity values per share of Exelon common stock of $38.48 to $45.51. Morgan Stanley noted that the closing price of Exelon common stock on December 15, 2004 was $43.38, which was within the range implied by this analysis.

No company utilized in the comparable public companies analysis is identical to PSEG or Exelon. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of PSEG and Exelon and other factors that could affect the public trading value of the companies to which they are being compared. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of PSEG or Exelon, such as the impact of competition on PSEG or Exelon and the industry generally, industry growth and the absence of any adverse material change in the financial conditions and prospects of PSEG or Exelon or the industry or in the financial markets in general. Mathematical analysis, such as determining the mean, median or average, is not in itself a meaningful method of using comparable company data.

Sum-of-the-Parts Discounted Cash Flow Analyses. Given the different nature of businesses in which PSEG and Exelon participate, Morgan Stanley also analyzed each company as the sum of its constituent businesses, or as the "sum of its parts" and performed a discounted cash flow analysis on each of its constituent businesses. A discounted cash flow analysis is designed to provide insight into the value of a company as a function of its future cash flows and terminal value. Morgan Stanley's discounted cash flow analysis was based on:

- subsidiary and consolidated financial projections provided by management of PSEG for the period from January 1, 2005 through December 31, 2009 (also referred to in this joint proxy statement/prospectus as the PSEG forward-looking financial information);
- subsidiary consolidated financial projections provided by management of Exelon for the period from January 1, 2005 through December 31, 2007 (also referred to in this joint proxy statement/prospectus as the Exelon forward-looking financial information for 2005 through 2007); and
- extensions of the projections of Exelon provided by Exelon's management for the period from January 1, 2008 through December 31, 2009 (also referred to in this joint proxy statement/prospectus as extensions of the Exelon forward-looking financial information for 2008 through 2009).

Unlevered free cash flows were calculated as net income available to common shareholders plus the aggregate of preferred stock dividends, depreciation and amortization, deferred taxes, and other noncash expenses and after-tax net interest expense less the sum of capital expenditures and investment in noncash working capital for each operating subsidiary. The free cash flows and range of terminal values were then discounted to present values using a range of discount rates which were chosen by Morgan Stanley based upon an analysis of market discount rates applicable to comparable companies in the electric utility sector.

PSEG. For the PSEG discounted cash flow analysis, Morgan Stanley performed discounted cash flow analysis on the following business units with the noted assumptions and considerations.

- PSE&G: For PSEG's regulated utility subsidiary, Morgan Stanley calculated a range of terminal values at the end of the projection period by applying a multiple to PSE&G's projected 2009 earnings and then adding back the projected debt and preferred stock amounts in 2009. The price to earnings multiple range used was 14.0x to 15.0x and the weighted average cost of capital was 5.5% to 6.0%.

- PSEG Power: Morgan Stanley calculated a range of terminal values at the end of the projection period by applying an Aggregate Value/EBITDA multiple to PSEG Power's projected 2009 EBITDA. The Aggregate Value to EBITDA multiple range used was 7.5x to 8.5x and the weighted average cost of capital range was 8.0% to 8.5%.

- PSEG Global: Morgan Stanley discounted the cash flows to equity holders by the equity cost of capital for each business owned by PSEG Global based on the risk profiles. Morgan Stanley determined the terminal value applicable for each business based on the valuation metrics associated with that business and the business's standalone prospects.

- PSEG Resources: Morgan Stanley performed a discounted cash flow analysis covering the entire period during which PSEG Resources' assets were projected to provide cash flow, with a terminal value based on the residual asset value at the end of the period. Morgan Stanley used a cost of capital for each lease owned by PSEG Resources based on the risk profile of each lease.

From this analysis, Morgan Stanley calculated a range of equity value per share of PSEG common stock of $40.53 to $45.49. Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was greater than the range implied by this analysis.

Exelon. For the Exelon discounted cash flow analysis, Morgan Stanley performed discounted cash flow analysis on the following business units with the noted assumptions and considerations.

- ComEd and PECO: For Exelon's utility subsidiaries, Morgan Stanley calculated a range of terminal values at the end of the projection and extension period by applying a price to earnings multiple to ComEd's and PECO's estimated ongoing 2009 earnings based on the extensions of the Exelon forward-looking financial information for 2008 through 2009 provided by Exelon's management. The price to earnings multiple range used was 14.0x to 15.0x for ComEd and PECO and the weighted average cost of capital was 5.5% to 6.0%.

- Exelon Generation: Morgan Stanley calculated a range of aggregate terminal values at the end of the projection and extension period by applying an Aggregate Value to EBITDA multiple to Exelon Generation's 2009 estimated EBITDA based on the extensions of the Exelon forward-looking financial information for 2008 through 2009 provided by Exelon's management. The 2009 estimated EBITDA Morgan Stanley used to calculate the terminal Aggregate Value of Exelon Generation was increased based upon an estimate made with respect to the potential increase in EBITDA Exelon Generation would receive for its generation output currently used to satisfy its Provider of Last Resort, referred to in this joint proxy statement/prospectus as a "POLR," service obligations to PECO; this estimate was based on an assessment of the potential amount by which market prices for POLR service in the PECO service territory would have exceeded the current POLR pricing charged by Exelon Generation to PECO through the period covered under Exelon Generation's POLR service agreement with PECO, which runs through December 31, 2010. The Aggregate Value to EBITDA multiple range used was 8.0x to 9.0x and the weighted average cost of capital was 7.5% to 8.0% for cash flows through the period ended December 31, 2009 and 7.75% to 8.25% for the terminal value.

- Synthetic fuel assets: Morgan Stanley conducted a discounted cash flow analysis covering the entire period during which Exelon's synthetic fuel assets were projected to provide cash flow; therefore, a terminal value approach was not used for this business. The cost of equity range used in the discounting of Exelon Generation's synthetic fuel assets' cash flow to equity holders was 6.5% to 7.5%.

From this analysis, Morgan Stanley calculated a range of equity value per share of Exelon common stock of $40.32 to $44.45. Morgan Stanley noted that the closing price of Exelon common stock on December 15, 2004 was $43.38, which was within the range implied by this analysis.

The sum-of-the-parts discounted cash flow analyses does not imply the value at which the individual PSEG or Exelon businesses could be sold. Morgan Stanley did not consider the effect of transaction costs, including taxes that could be payable, associated with a disposition of any of the PSEG or Exelon businesses.

Sum-of-Parts Comparable Public Companies Analysis. Morgan Stanley also used a comparable companies analysis as described earlier to analyze each of PSEG's and Exelon's constituent businesses. Using management estimates, Morgan Stanley compared certain financial measures of selected comparable companies to those of the relevant businesses within PSEG and Exelon. Morgan Stanley selected these comparable companies based upon its views as to the comparability of the financial and operating characteristics of these companies to the relevant PSEG and Exelon businesses. Morgan Stanley calculated reference value ranges for the PSEG and Exelon businesses by applying various multiples derived from these comparable companies to selected financial measures of the relevant PSEG and Exelon businesses based on information provided by each company's management. Based on this analysis, Morgan Stanley calculated per share values for PSEG common stock ranging from $38.66 to $41.51. Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was greater than the range implied by this analysis. In addition, based on this analysis, Morgan Stanley calculated per share value for Exelon common stock ranging from $41.16 to $45.97 and noted that the closing price of Exelon common stock on December 15, 2004 was $43.38, which was within the range implied by this analysis.

Dividend Discount Analysis. Morgan Stanley also analyzed the implied values of PSEG and Exelon as a function of the present value of their respective dividend payments. Morgan Stanley performed these analyses of PSEG and Exelon based on the following information:

- PSEG forward-looking financial information for 2005 through 2009 provided by management of PSEG;
- Exelon forward-looking financial information for 2005 through 2007 provided by management of Exelon; and
- extensions of the Exelon forward-looking financial information for 2008 through 2009 provided by Exelon's management.

Morgan Stanley calculated terminal values by applying a range of multiples to the estimated EPS in fiscal year 2009 and the dividend streams and terminal values were then discounted to the present using a range of discount rates representing an estimated range of the cost of equity for each of PSEG and Exelon. Based on this analysis, Morgan Stanley calculated per share values for PSEG ranging from $42.75 to $47.10. Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was greater than the range implied by this analysis. In addition, based on this analysis, Morgan Stanley calculated per share values for Exelon ranging from $38.15 to $42.01 and noted that the closing price of Exelon common stock on December 15, 2004 was $43.38, which was greater than the range implied by this analysis.

Analysis of Selected Precedent Transactions. Morgan Stanley also performed an analysis of selected precedent transactions, which attempted to provide an implied value for PSEG by comparing it to other companies involved in business combinations. Using publicly available information, Morgan Stanley considered three sets of announced or completed transactions:

- United States mergers (excluding transactions in the technology sector), referred to in this joint proxy statement/prospectus as "Large United States All-Stock Mergers," announced since

January 2001 involving 100% stock-for-stock exchanges, in which the smaller company involved had an equity market capitalization of at least $5 billion;

- Utility sector merger-of-equal transactions, referred to in this joint proxy statement/prospectus as "Utility MOEs," since January 1998; and

- Utility sector corporate acquisition transactions since January 1999, referred to in this joint proxy statement/prospectus as "Utility Acquisitions."

Morgan Stanley compared certain financial and market statistics of the three sets of selected precedent transactions. Based on an assessment of the Large United States All-Stock Mergers, Morgan Stanley applied a premium to unaffected market price ranging from 10% to 20%. Based on the analysis of Large United States All-Stock Mergers, Morgan Stanley calculated per share values for PSEG common stock ranging from $49.04 to $53.50.

Based on an assessment of the Utility MOEs, Morgan Stanley applied a premium to unaffected market price ranging from 0% to 10% and the 1-year forward I/B/E/S price to earnings multiple ranging from 12.0x to 14.0x. Based on the analysis of Utility MOEs, Morgan Stanley calculated per share values for PSEG common stock ranging from $38.40 to $49.04.

Based on an assessment of the Utility Acquisitions, Morgan Stanley applied a premium to unaffected market price ranging from 20% to 40%. Based on the analysis of Utility Acquisitions, Morgan Stanley calculated per share values for PSEG common stock ranging from $53.50 to $62.41.

Morgan Stanley noted that the implied consideration to be paid for each share of PSEG common stock was $53.14 as of December 15, 2004, which was within the range implied by the large United States All-Stock Mergers, greater than the range implied by the Utility MOEs, and less than the range implied by the Utility Acquisitions. Morgan Stanley also noted that the Utility Acquisitions involved much smaller transactions in terms of the size (of the target), and very few of these transactions occurred in 2003 or 2004. Of the 24 transactions comprising the Utility Acquisitions group, the target company median size was $2 billion, and only four of these transactions were announced since the end of 2002. Morgan Stanley further noted that no Utility MOEs have been announced since 2000.

No transaction utilized as a comparison in the analysis of selected precedent transactions is identical to the merger in both business mix, timing and size. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of PSEG and other factors that would affect the value of the companies to which it is being compared. In evaluating the precedent transactions, Morgan Stanley made judgments and assumptions with regard to industry performance, global business, economic, market and financial conditions and other matters, many of which are beyond the control of PSEG, such as the impact of competition on PSEG and the industry generally, industry growth and the absence of any adverse material change in the financial conditions and prospects of PSEG or the industry or the financial markets in general. Mathematical analysis (such as determining the mean or median) is not, in itself, a meaningful method of using precedent transactions data.

Pro Forma Transaction Analysis. Using financial projections provided by PSEG's and Exelon's managements and publicly available I/B/E/S earnings estimates and taking into account certain management estimates of synergies provided to Morgan Stanley by PSEG management, Morgan Stanley reviewed the pro forma impact of the merger on PSEG's and Exelon's estimated EPS for the years 2006-2009. For purposes of this analysis, Morgan Stanley assumed the transaction closed on January 1, 2006.

The pro forma impact on Recurring Earnings Per Share (defined as earnings based on all projected merger-related adjustments to EPS except for impacts relating to costs to achieve synergies and certain short-term purchase accounting adjustments) was found to be accretive to earnings from 2006 to 2009 to both PSEG and Exelon using each company's forward-looking financial information, and extension thereof in the case of Exelon, as the basis of comparison for both companies. The pro forma impact on Reported Earnings Per Share (defined as earnings per share taking into account all projected merger-related adjustments and any extraordinary items) was found to be accretive to earnings from 2006 to 2009 to PSEG and accretive to earnings from 2007 to 2009 to Exelon using each company's forward-looking financial information and, extension thereof in the case of Exelon, as the basis of comparison for both companies. Assuming no merger-related adjustments to earnings per share and based on I/B/E/S earnings estimates, the pro forma impact on EPS was found to be accretive to earnings from 2006 to 2009 to both PSEG and Exelon using I/B/E/S projections as the basis for comparison for both companies.

Contribution Analysis. Morgan Stanley also performed a contribution analysis which reviewed the pro forma contribution of each of PSEG and Exelon to the combined entity and implied contributions based on other financial metrics. Morgan Stanley reviewed the pro forma effect of the merger and computed the implied equity contribution of PSEG and Exelon for the years ended December 31, 2004, December 31, 2005 and December 31, 2006. Such financial results included EBITDA and net income. The computation showed, among other things, that PSEG's implied equity contribution based on 2004, 2005 and 2006 projected EBITDA was 27%, 28% and 30%, respectively; based on 2004, 2005 and 2006 projected net income, PSEG's implied equity contribution was 28%, 28% and 30%, respectively. In addition, Morgan Stanley calculated the implied equity contribution of PSEG and Exelon based on the results of the Sum-of-Parts Discounted Cash Flow, Sum-of-Parts Comparable Public Companies, and Dividend Discount analyses; the computation showed, among other things, that PSEG's implied equity contribution based on these three analyses was 27%, 25% and 29%, respectively. Morgan Stanley noted that the 1.225x exchange ratio of Exelon common shares to PSEG common shares would result in pro forma ownership of the combined company for holders of PSEG common stock equal to approximately 31%.

In connection with the review of the transaction with the PSEG board of directors, Morgan Stanley performed a variety of financial and comparable analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Morgan Stanley's analyses and opinion. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of PSEG or Exelon common stock.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of PSEG or Exelon. Any estimates contained in Morgan Stanley's analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by the estimates. The analyses performed were performed solely as part of Morgan Stanley's analysis of the fairness from a financial point of view of the exchange ratio pursuant to the merger agreement to the holders of PSEG common stock and were conducted in connection with the delivery of Morgan Stanley's opinion to the PSEG board of directors. The analyses do not purport to be appraisals or to reflect the prices at which PSEG common stock or Exelon common stock might actually trade. The exchange ratio applicable to each share of PSEG common stock under the merger agreement and other terms of the merger agreement were determined through arm's length negotiations between PSEG and Exelon and approved by the PSEG board of directors. The written opinion of Morgan Stanley dated December 20, 2004, was one of a number of factors taken into consideration by PSEG's board of directors in making its decision to approve the merger agreement and the transactions contemplated by the merger agreement. Consequently, Morgan Stanley's analyses described above should not be viewed as determinative of the opinion of the PSEG board of directors with respect to the value of PSEG or Exelon. See "—Recommendation of PSEG Board; PSEG's Reasons for the Merger."

Morgan Stanley, as part of its investment banking businesses, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. PSEG selected Morgan Stanley as its financial advisor based upon the firm's qualifications, experience and expertise and because it is an internationally recognized investment banking firm with substantial experience in transactions similar to the merger. In the ordinary course of its trading and brokerage activities, Morgan Stanley and its affiliates may at any time hold long or short positions, trade or otherwise effect transactions, for their own accounts or for the accounts of customers, in the equity or debt securities or senior loans of PSEG or Exelon.

Pursuant to the terms of its engagement, PSEG agreed to pay Morgan Stanley a transaction fee of $20 million. The fee is payable as follows: $5 million of which was due upon the public announcement of the execution of the merger agreement, $5 million of which is payable upon PSEG's shareholder approval and $10 million of which is payable upon completion of the merger. PSEG has also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, PSEG has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions. During the past two years, Morgan Stanley and its affiliates have provided financial advisory, underwriting, loan syndication and other investment banking services for PSEG and Exelon and have received fees of approximately $4 million, exclusive of any fees for the merger, and $3 million, respectively, for the rendering of these services. The fees received from Exelon relate primarily to financial advice Morgan Stanley provided to Exelon in connection with the sale of the outstanding common stock of ExRes SHC Inc., the parent company of Sithe Energies and Sithe Independent L.P., to Dynegy, Inc. Exelon Generation enters into various energy related derivative transactions for hedging and speculative purposes with Morgan Stanley. These transactions, include, but are not limited to, power forwards, power swaps, natural gas swaps, natural gas options, oil swaps and oil options. Morgan Stanley also may or may in the future seek to provide financial advice or financing services to PSEG and Exelon and may receive fees for such services.

Forward-Looking Financial Information

Exelon Forward-Looking Financial Information

Exelon does not as a matter of course publicly disclose detailed forecasts or internal projections as to future revenues, earnings or financial condition. However, in the course of its discussions with PSEG leading up to the execution of the merger agreement, Exelon provided PSEG with some business and financial information which Exelon and PSEG believe was not publicly available. The information provided to PSEG included forward-looking financial information for years 2005 through 2007 based upon projections developed by Exelon through a regular internal planning and forecasting process that included input from Exelon's business units and a corporate level review. As described below, those projections were adjusted to reflect market price assumptions that Exelon and PSEG agreed to use for the purpose of providing to each other comparable information. The following table is a summary of the forward-looking financial information Exelon provided to PSEG for years 2005 through 2007.

Exelon Corporation
Forward-Looking Income and Cash Flow Statement Data
(in millions, except per share data)

	For the Year Ending December 31,		
	2005	2006	2007
Net Income Available for Common Shareholders(1)	$ 2,080	$ 2,210	$ 2,303
Exelon Earnings Per Share(2)	$ 3.11	$ 3.30	$ 3.44
Total Common Dividends(3)	$ (1,135)	$ (1,204)	$ (1,245)

(1) Net income amounts include $64, $64 and $65 for 2005, 2006 and 2007, respectively, reflecting the impact of investments in synthetic fuel.

(2) Earnings per share amounts include $0.10, $0.10 and $0.10 per share for 2005, 2006 and 2007, respectively, reflecting the impact of investments in synthetic fuel.

(3) Reflects cash disbursement for common dividends.

PSEG also requested forward-looking financial information for years 2008 and 2009. In response to PSEG's request, Exelon created forward-looking financial information for years 2008 and 2009 through a process of extension of the forward-looking financial information for years 2005 through 2007 described above, but only with a corporate level review not involving the same planning processes, analysis and input from Exelon's business units that were used in the preparation of Exelon's projections for years 2005 through 2007. The following table is a summary of the extended forward-looking financial information Exelon provided to PSEG for years 2008 and 2009.

Exelon Corporation
Extension of Forward-Looking Income and Cash Flow Statement Data
(in millions, except per share data)

	For the Year Ending December 31,	
	2008	2009
Net Income Available for Common Shareholders(1)	$ 2,302	$ 2,349
Exelon Earnings Per Share(2)	$ 3.43	$ 3.49
Total Common Dividends(3)	$ (1,281)	$ (1,315)

(1) Net income amounts include $16 and $0 for 2008 and 2009, respectively, reflecting the impact of investments in synthetic fuel.

(2) Earnings per share amounts include $0.02 and $0.00 for 2008 and 2009, respectively, reflecting the impact of investments in synthetic fuel.

(3) Reflects cash disbursement for common dividends.

The Exelon forward-looking financial information was based upon various assumptions, including the following principal assumptions:

- In order to provide each other with comparable information, Exelon and PSEG developed common assumptions about energy and gas prices through 2009, based in large part on market data that was extended through the forecast period. The common assumptions were similar to, but not necessarily the same as, Exelon's forecasts of energy and gas prices for internal planning purposes. Based on this data, the forward-looking financial information that Exelon provided to PSEG assumed that ComEd around-the-clock ("ATC") energy prices would decline slightly but remain relatively flat over the forecast period and that PJM ATC prices would decrease from approximately $47.50 per MWh in 2005 to approximately $41.00 per MWh in 2009 due to a forecast of declining gas prices.

- Market data for capacity is relatively limited. Exelon assumed the capacity markets would tighten over time, thereby resulting in higher capacity prices. For purposes of the forward-looking financial information provided to PSEG, Exelon assumed that ComEd region capacity prices would increase by approximately 23% per year over the period from 2005 through 2009 and that prices in the PJM region would be approximately $11.00 per kW per year in 2005 and increase by approximately 29% per year through 2009. These assumptions were similar to, but not necessarily the same as, Exelon's forecasts of capacity prices for internal planning purposes.

- Exelon assumed the Exelon nuclear fleet and the PSEG nuclear fleet co-owned with Exelon would perform at levels consistent with its recent historical performance.

- Exelon assumed that ComEd's rates would be reset in 2007 based on full cost recovery for the Exelon energy delivery business with a pass through of energy rates based on a descending clock energy auction process similar to the process used in New Jersey. Exelon assumed that PECO's rates would remain consistent with current scheduled rates through 2009.

- The estimated operating and maintenance expense and capital expenditures for years 2005 through 2007 were based upon Exelon's internal forecast and assessment of expenditures required to meet reliability goals. For the forward-looking financial information for years 2008 and 2009, Exelon assumed total operating and maintenance expense and capital expenditures would grow at a rate of 1% per year.

The estimates and assumptions underlying the forward-looking financial information involved judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of Exelon and PSEG. Accordingly, there can be no assurance that the prospective results thereof would be realized or that actual results would not differ materially from those presented in the forward-looking financial information.

See cautionary statements regarding forward-looking information under "Forward-Looking Statements."

Although all of the forward-looking financial information Exelon provided to PSEG was prepared in good faith by Exelon management, the information provided for years 2008 and 2009 was not prepared with the same degree of analysis as the information provided for years 2005 through 2007. In addition, no assurance can be made regarding future events. As a result, prospective financial information such as that provided for years 2005 through 2009 above cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The information provided to PSEG and summarized above was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, published guidelines of the SEC regarding forward-looking statements, or United States generally accepted accounting principles. In the view of Exelon management, the information was prepared on a reasonable basis and reflects reasonable estimates and judgments. However, this information should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy statement/prospectus are cautioned not to place reliance on this information.

The forward-looking financial information included in the previous two tables was prepared by, and is the responsibility of, Exelon management. Neither PricewaterhouseCoopers LLP nor Deloitte & Touche LLP has examined or compiled the accompanying prospective financial information and, accordingly, neither PricewaterhouseCoopers LLP nor Deloitte & Touche LLP expresses an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP reports included in this joint proxy statement/prospectus relate to Exelon's historical financial information. They do not extend to the prospective financial information and should not be read to do so.

The Exelon forward-looking financial information for years 2005 through 2007 and the extensions of that forward-looking financial information for years 2008 through 2009 were prepared for Exelon on a stand-alone basis and the PSEG forward-looking financial information was prepared for PSEG on a stand-alone basis. The combination of the Exelon and PSEG forward-looking financial information does not represent the results the combined company will achieve if the merger is completed nor does it represent forward-looking financial information for the combined company.

The information concerning forward-looking financial information provided by Exelon is not included in this joint proxy statement/prospectus in order to induce any shareholder to vote in favor of the merger agreement or to acquire securities of Exelon.

Exelon does not intend to update or otherwise revise the forward-looking financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, Exelon does not intend to update or revise the forward-looking financial information to reflect changes in general economic or industry conditions.

PSEG Forward-Looking Financial Information

PSEG does not as a matter of course make public projections as to future sales, earnings, or other financial results. However, in the course of its discussions with Exelon leading up to the execution of the merger agreement, the management of PSEG provided to Exelon certain prospective financial information which PSEG and Exelon believe is not publicly available. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of PSEG management, was prepared on a reasonable basis and reflects reasonable estimates and judgments. However, this information should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy statement/prospectus are cautioned not to place reliance on the prospective financial information.

Neither PSEG's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The following table is a summary of the forward-looking financial information PSEG provided to Exelon for years 2005 through 2009.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
Forward-Looking Income and Cash Flow Statement Data
(in millions, except per share data)

	For the Year Ending December 31,				
	2005	2006	2007(1)	2008	2009
Net Income Available for Common Shareholders	$ 771	$ 910	$ 1,002	$ 1,068	$ 1,067
Adjusted PSEG Earnings Per Share	$ 3.20	$ 3.58	$ 3.82	$ 4.11	$ 4.22
Total Common Dividends(2)	$ (543)	$ (583)	$ (608)	$ (619)	$ (630)

(1) Reflects exclusion of after-tax loss on a forecasted sale of a plant.

(2) Reflects cash disbursement for common dividends.

The PSEG forward-looking financial information was based upon various assumptions, including the following principal assumptions:

- In order to provide comparable information, PSEG and Exelon developed common assumptions about electric energy and natural gas prices though 2009, based largely on market data that was extended through the forecast period. The common assumptions were similar to, but not necessarily the same as, PSEG's forecasts of electric energy and natural gas prices used for internal planning purposes. Based on this data, the forward-looking financial information that PSEG provided to Exelon assumed that PJM ATC energy prices would decrease from approximately $47.50 per MWh in 2005 to approximately $41.00 per MWh in 2009 due to declining natural gas price prices and moderating coal prices.

- Market data for capacity pricing is limited. PSEG assumed that continuing demand growth in the region would create conditions resulting in higher capacity prices over the planning period. For the forward-looking financial information provided to Exelon, PSEG assumed that capacity prices in the PJM region would be approximately $11.00 per kW-year in 2005 and increase by approximately 29% per year through 2009. These capacity price assumptions were similar to, but not necessarily the same as, those used for PSEG's internal planning purposes.

- PSEG assumed that the performance of the nuclear units that it operates will return to levels consistent with the period prior to 2004. PSEG also assumed that the nuclear fleet co-owned with and operated by Exelon would continue to operate at levels consistent with recent historical performance.

- PSEG assumed that its New Jersey-based electric and gas utility, PSE&G, would continue to receive fair rate treatment and reasonable allowed returns on equity from the NJBPU. PSEG further assumed that the NJBPU would continue to employ a competitive auction process to procure energy for customers of the State's Basic Generation Service.

- Consistent with PSEG's publicly stated strategy, PSEG's forward-looking financial information reflects no new investment in PSEG Energy Holdings.

- PSEG estimated its operating and maintenance expense and capital expenditures for the period from 2005 to 2009 based on both historical practice, and in the case of capital, known project investments. The forward-looking financial information reflects growth in total operating and maintenance expenditures of approximately 2% per year.

The estimates and assumptions on which the forward-looking financial information is based involved judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of PSEG and Exelon. Accordingly, there can be no assurance that the prospective results thereof would be realized or that actual results would not differ materially from those presented in the forward-looking financial information.

See cautionary statements regarding forward-looking information under "Forward-Looking Statements."

The PSEG forward-looking financial information for years 2005 through 2009 was prepared for PSEG on a stand-alone basis and the Exelon forward-looking financial information for years 2005 through 2007 and the extensions of that forward-looking financial information for 2008 through 2009 were prepared for Exelon on a stand-alone basis. The combination of the PSEG and Exelon forward-looking financial information does not represent the results the combined company will achieve if the merger is completed nor does it represent forward-looking financial information for the combined company.

The information concerning forward-looking financial information provided by PSEG is not included in this joint proxy statement/prospectus in order to induce any shareholder to vote in favor of the merger agreement or to acquire securities of PSEG.

PSEG does not intend to update or otherwise revise the forward-looking financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, PSEG does not intend to update or revise the forward-looking financial information to reflect changes in general economic or industry conditions.

Estimated Potential Synergies Attributable to the Merger

The companies have estimated potential reductions and avoidances in costs and other synergies, collectively referred to as synergies, that may be attributable to the merger. Recognition has also been given to those out-of-pocket costs that are expected to be incurred to successfully complete the merger and to integrate operations. These estimated potential cost savings are directly attributable to the merger and do not include estimated potential savings from other initiatives that were already underway or planned by either company independent of the merger or that could be achieved in the absence of the merger.

Total potential cost savings and other synergies identified by the management of Exelon have been estimated at 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. The management of PSEG estimated similar levels of synergies, giving effect to all expected improvements in the operating performance of nuclear generating units, including improvements reflected in PSEG's forward-looking financial information for 2005-2009. Related costs-to-achieve these synergies are currently estimated at approximately $450 million in the first full year of operations following completion of the merger and approximately $700 million over a period of four years following the merger. Identified plans for stand-alone cost reduction initiatives have also been recognized and deducted from the estimated potential cost savings in the amount of $5 million in the first full year of operations and $9 million in the second full year of operations. The impact of these planned initiatives will continue into the future and reduce identified merger synergies each year.

The principal components of the anticipated synergies identified by the companies are set forth below.

- *Staffing*: The combined company should be able to integrate certain overlapping or duplicative functions for the corporate, shared services, utility and, generation business units. These functions relate to business unit management and back-office support functions for each business unit and to reduced plant staffing in nuclear operations. Such estimated cost savings amount to approximately 43% of the total estimated level of synergies in the second full year of operations. The identified reductions will not affect field related functions and should not create any adverse impacts on service quality, reliability or safety.

- *Corporate and Administrative Programs*: In addition to the staffing costs related to the functions referred to above, non-labor costs in support of these functions will be reduced through the combination of the companies. Of the total estimated synergies in the second full year of operations, approximately 15% are attributable to this category. These estimated cost reductions will relate to expenditures in the areas of miscellaneous administrative and general expense, benefits administration, facilities, insurance, professional services and, shareholder services, among others. These reductions relate to redundant costs that can be avoided and to economies of scale that can be achieved with respect to sourcing of certain of these expenditures.

- *Information Technology*: Estimated cost savings in the information technology area are approximately 9% of total estimated synergies in the second full year of operations. It is expected the combined company will integrate the stand-alone information technology functions including data centers, network operations, workstation support, applications and, telecommunications, where applicable. In addition, certain projects planned on a stand-alone basis by each company can be avoided with the integration of the respective system architectures and underlying operating systems.

- *Supply*: The merger is expected to enable the consolidation of supply chain management and operations. The common management of this function should enable the integrated sourcing of both materials and supplies and contract services and is expected to produce economies of scale and lower unit costs of acquisition. Estimated cost savings in the supply area are approximately 16% of total estimated synergies in the second full year of operations.

- *Nuclear Production Improvements*: In the nuclear business unit, additional revenues are expected to be available from improvement in the generating plan operating performance of PSEG's nuclear fleet. These opportunities are expected to arise from higher capacity factors as a result of the implementation of the Exelon Nuclear Management Model and the potential for increased market sales of this additional output and amount to approximately 14% of total estimated synergies in the second full year of operations.

- *Nuclear Outage Costs*: Improvements in the execution of plant outages are also expected with durations for the PSEG plants to be reduced to a length consistent with that existing within the Exelon nuclear fleet. These estimated savings amount to approximately 3% of the total estimated synergies level in the second full year of operations.

Potential synergies were analyzed across an extended time period and continued into perpetuity in order to determine the net present value of estimated synergies. This calculation reflects the ongoing nature of the estimated synergies and was used to develop a basis for determining the present value of the future stream of estimated synergies.

These estimated synergies were grown at an escalation rate over time with a terminal value used to value the stream of estimated synergies in future years. A conservative synergies sharing assumption was made to reflect the net retainable level of total synergies. This total stream of synergies was converted to an after-tax value and discounted back to the present at a 6% discount rate.

This analysis indicated that the identified level of estimated annual synergies over a 10 year period, plus a terminal value at the end of that period for the estimated synergies in subsequent years, would result in approximately $8 to 9 billion of estimated retained synergies on a net present value basis.

The Exelon analysis of estimated expected and growing synergies under a conservative synergies retention assumption indicated that the merger is expected to be accretive to earnings of the combined company in the second full year of operations by approximately 3 to 4%.

The estimates and assumptions underlying the identification of potential synergies and estimated accretion involve judgments with respect to, among other things, the extent to which the regulatory authorities require the combined company to share synergies with its customers, future economic, competitive, regulatory and market conditions and future business decisions which may not be realized and are inherently subject to uncertainties. For this reason, synergies are difficult to predict and there can be no assurance that the estimated synergies referred to in the preceding paragraphs will be achieved and in the amounts and time periods estimated by the managements of the companies. See "Risk Factors—Risks Relating to the Merger—The anticipated benefits of combining PSEG and Exelon may not be realized."

Board of Directors and Management Following Completion of the Merger

Exelon has agreed to amend and restate its Amended and Restated By-laws upon completion of the merger to provide for certain arrangements relating to the Exelon board of directors and management during a transition period lasting for three years following completion of the merger. Generally, these new provisions of the Amended and Restated By-laws to be adopted will not be able to be changed by the board of directors without the approval of at least 80% of the whole Exelon board of directors. These provisions and the provisions of the merger agreement related to the governance of Exelon following completion of the merger are described below.

Board of Directors

Pursuant to the merger agreement and the Amended and Restated By-laws, upon completion of the merger, Exelon will increase the number of directors on its board of directors to 18 and appoint six former PSEG directors designated by the Chief Executive Officer of PSEG to fill six directors seats, subject to applicable laws and regulations. Such former PSEG directors will be allocated evenly among Classes I, II and III of the Exelon board of directors.

Pursuant to Exelon's Amended and Restated By-laws to be adopted upon completion of the merger, 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 to nominate the legacy Exelon directors (or their successors) whose class is standing for election. In addition, during the transition period, the Exelon board of directors is required to, 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 will 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.

In addition, pursuant to Exelon's Amended and Restated By-laws to be adopted upon completion of the merger, during the transition period, a legacy PSEG director will be the chairman of at least one committee of the board of directors as determined by the Exelon corporate governance committee.

To help assure continuity before and for a period of time following completion of the merger, the Exelon board of directors has deferred, until after completion of the merger, the retirement of three directors who otherwise would have retired at the end of 2004. In addition, the Exelon board of directors suspended its director retirement policy so that directors who reach the retirement age of 72 within three years following completion of the merger will not be required to retire until the end of that three-year period.

Chairman of the Board; Chief Executive Officer; President

Pursuant to Exelon's Amended and Restated By-laws to be adopted, 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 member of the Exelon board of directors. At such time, 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.

As the non-executive Chairman, 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 meetings of the Exelon board of directors. Mr. Ferland will have such other duties as non-executive Chairman of the Exelon board of directors as may from time to time be requested by the Chief Executive Officer of Exelon.

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.

Senior Officers

The merger agreement provides that the officers of Exelon following the merger will continue as the officers of Exelon with such substitutions, additions and deletions as shall be determined by Mr. Rowe in consultation with the Chief Executive Officer of PSEG and approved by the Exelon board of directors.

Corporate Offices

Pursuant to the Amended and Restated By-laws to be adopted upon completion of the merger, 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. ComEd will maintain its headquarters in Chicago, Illinois, PECO will maintain its headquarters in southeastern Pennsylvania and PSE&G will maintain its headquarters in Newark, New Jersey. Following completion of the merger, the Exelon board of directors may amend the provisions of the Amended and Restated By-laws setting Chicago, Illinois, as the corporate headquarters by the approval of at least 80% of the whole Exelon board of directors. Following completion of the merger, the Exelon board of directors may amend the provisions of the Amended and Restated By-laws setting the headquarters of the subsidiaries and divisions of the combined company by the approval of a majority of the directors present and voting at a meeting, so long as a quorum is present.

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.

Interests of PSEG's Directors and Executive Officers in the Merger

Appointment of Directors and Executive Officers

When the merger is completed, six current members of the PSEG board of directors as designated by the Chief Executive Officer of PSEG, including Mr. Ferland, will be appointed to the Exelon board of directors. The Exelon board of directors will have the authority to fix the compensation of the directors for their services as such and a director may be a salaried officer of Exelon.

Pursuant to the second amendment to his employment agreement and Exelon's Amended and Restated By-laws to be adopted upon completion of the merger, Mr. Ferland will serve as the Chairman of the Exelon board of directors until the earlier of March 31, 2007 and the date on which he ceases to be a director of Exelon. After the merger becomes effective, pursuant to the second amendment to his employment agreement, which amendment does not change the compensation provisions of his employment agreement, Mr. Ferland will continue to receive:

- an annual base salary no less than the annual base salary he received prior to completion of the merger which may, after completion of the merger, be increased but may not be subsequently decreased; as of April 30, 2005, Mr. Ferland's annual base salary was $1,080,000;

- a target annual incentive bonus under the Management Incentive Compensation Plan equal to no less than 100% of his annual base salary (the target award for which Mr. Ferland was eligible immediately prior to completion of the merger); and

- a target long-term incentive bonus under the long-term incentive plans equal to no less than 300% of his annual base salary (the target award for which Mr. Ferland was eligible immediately prior to completion of the merger).

Under the second amendment, Mr. Ferland agreed to waive his right to resign for "good reason" and to be paid any severance as a result of the merger and the change in his responsibilities and agreed that the change in his responsibilities following completion of the merger will not constitute "good reason" or the termination of his employment without "cause." The second amendment further provides that Mr. Ferland will voluntarily retire as an employee of Exelon and as a member of the Exelon board of directors no later than March 31, 2007.

In addition, the merger agreement provides that the officers of Exelon immediately prior to completion of the merger will continue as the officers of Exelon following completion of the merger with such substitutions, additions and deletions as will be determined by the Chief Executive Officer of Exelon, in consultation with the Chief Executive Officer of PSEG, and approved by the Exelon board of directors.

PSEG Director and Executive Officer Stock Options and Equity-Based Awards

Substitution of Current PSEG Stock Options and Equity-Based Awards

Upon completion of the merger, each PSEG stock option which is outstanding pursuant to the PSEG 1989, 2001 and 2004 Long-Term Incentive Plans will be assumed by Exelon and substituted with an option to purchase the number of shares of Exelon common stock determined by multiplying (1) the number of shares of PSEG common stock subject to such PSEG stock option immediately prior to completion of the merger by (2) the exchange ratio of 1.225, at an exercise price per share of Exelon common stock equal to the exercise price per share of PSEG common stock under such PSEG stock option immediately prior to completion of the merger divided by the exchange ratio. Thereafter, except as provided in this paragraph and the accelerated vesting of certain stock options as described below, each substituted Exelon stock option will be exercisable on the same terms and conditions that applied before the merger.

Upon completion of the merger, all PSEG equity-based awards will be assumed by Exelon and substituted with a right or award with respect to shares of Exelon common stock on the same terms and conditions as were applicable under the PSEG equity-based award, including all repurchase and forfeiture rights held by PSEG. The number of shares of Exelon common stock issuable under those equity-based awards will be adjusted to take into account the exchange ratio.

The table below shows the number of PSEG stock options and equity-based awards held by the directors and executive officers of PSEG as of April 30, 2005 and the total number of substitute Exelon stock options and substitute Exelon equity-based awards the directors and executive officers of PSEG will receive in substitution for such PSEG stock options and equity-based awards upon completion of the merger.

SUBSTITUTE STOCK OPTIONS AND SUBSTITUTE EQUITY-BASED AWARDS

	PSEG Stock Options Pre-Merger	Exelon Stock Options Post-Merger	PSEG Restricted Shares Pre-Merger	Exelon Restricted Shares Post-Merger
Executive Officer				
E. James Ferland	1,566,000	1,918,350	109,800(1)	134,505
Thomas M. O'Flynn	506,333	620,257	17,167	21,029
Ralph Izzo	354,667	434,467	19,667	24,092
Frank Cassidy	693,000	848,925	17,167	21,029
Robert J. Dougherty	618,000	757,050	17,167	21,029
R. Edwin Selover	227,000	278,075	11,300	13,842
Patricia A. Rado	64,266	78,725	3,933	4,817
Robert E. Busch	365,000	447,125	9,500	11,637
Total:	4,394,266	5,382,974	205,701	251,980

(1) Includes 30,000 shares of restricted stock awarded to Mr. Ferland under Mr. Ferland's employment agreement.

As of April 30, 2005, there were 5,796,645 shares of PSEG common stock subject to PSEG stock options with a weighted average exercise price of $40.48, of which options with respect to 4,147,512 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.

Lapse of Restrictions on Director Restricted Shares

If following consummation of the merger, any member of the PSEG board of directors (other than Mr. Ferland) ceases to be a director of PSEG, or Exelon as its successor, all restrictions on such member's restricted shares will immediately lapse and be of no effect. As of January 1, 2005, the members of the PSEG board of directors (other than Mr. Ferland) collectively held 28,800 shares of restricted PSEG common stock.

Acceleration of Executive Officer PSEG Stock Options Granted Pursuant to Employment Agreements

Employment agreements with certain executive officers of PSEG, other than Mr. Ferland, provide for accelerated vesting of their PSEG stock options granted pursuant to the employment agreements in certain circumstances. If, during the term of the employment agreement, there occurs a change in control of PSEG or the PSEG shareholders approve an agreement to effect a change in control of PSEG, the executive officer's right to his PSEG stock options granted pursuant to the agreement will vest and become exercisable as of the date of such change in control or approval. Accordingly if the PSEG shareholders approve the merger agreement, whether or not the merger is completed, the outstanding PSEG stock options subject to these employment agreements (other than Mr. Ferland's whose options will vest as described elsewhere in this section and Mr. Izzo's whose options will vest upon completion of the merger) will vest.

As of April 30, 2005, PSEG executive officers with employment agreements held options with accelerated vesting provisions to acquire an aggregate of 450,000 shares of PSEG common stock at a weighted average exercise price of $43.237. The following chart sets forth as of April 30, 2005 the aggregate number of stock options granted pursuant to these employment agreements held by executive officers of PSEG that will become exercisable upon approval of the merger agreement by PSEG shareholders (or in the case of Mr. Izzo, upon completion of the merger) and the weighted average exercise price of those stock options. Each executive officer may hold additional PSEG stock options that are already exercisable or which were not granted pursuant to his employment agreement and with respect to which vesting will not accelerate upon approval of the merger by PSEG shareholders. Such PSEG stock options are not reflected in this chart.

STOCK OPTIONS SUBJECT TO ACCELERATION UNDER EMPLOYMENT AGREEMENTS

Executive Officer	Number of Stock Options to Become Exercisable		Weighted Average Exercise Price
Thomas M. O'Flynn	100,000	$	45.85
Ralph Izzo	200,000	$	40.77
Frank Cassidy	50,000	$	44.0625
Robert J. Dougherty	50,000	$	44.0625
Robert E. Busch	50,000	$	46.23
Total:	450,000	$	43.237

Acceleration of PSEG Stock Options and Equity-Based Awards Under Long-Term Incentive Plans

Certain executive officers of PSEG have received grants of PSEG stock options, dividend equivalents and performance units under PSEG's 2001 Long-Term Incentive Plan and 2004 Long-Term Incentive Plan, the vesting of which may accelerate following completion of the merger under the circumstances described below.

2001 and 2004 Long-Term Incentive Plans. Under the terms of the 2001 LTIP, if after a change in control occurs, the officer's employment is terminated, all outstanding options, dividend equivalents and performance shares granted thereunder will immediately vest and become fully exercisable. Under the terms of the 2004 LTIP, if an officer is terminated within 18 months following a change in control, other than a termination for "cause," his or her equity-based awards (other than stock options, stock appreciation rights and performance units, the treatment of which is described below) will vest. The merger constitutes a change in control under the LTIPs. Accordingly, if following completion of the merger any officer of PSEG is terminated at any time, in the case of the 2001 LTIP, or within 18 months after completion of the merger, in the case of the 2004 LTIP (and only if not for cause), his or her options, dividend equivalents and performance units under the 2001 LTIP will vest and his or her other equity-based awards under the 2004 LTIP will vest. The following chart sets forth as of