*This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.*



Analysis

*September 2004*



| Contact | Phone |
|---|---|
| ***New York*** | |
| Mo Ying W. Seto | 1.212.553.1653 |
| A.J. Sabatelle | |
| Daniel Gates | |



# Exelon Corporation

## Opportunities/Strengths

- Strong cash flow and strengthened financial performance at both its regulated transmission and distribution utility subsidiaries, PECO Energy and Commonwealth Edison, and at the non-regulated generation subsidiary, Exelon Generation.
- Favorable electric restructuring settlement in Pennsylvania and Illinois, providing for substantial stranded cost recovery.
- Both Commonwealth Edison's and PECO Energy's supply and energy price risks are fully hedged through 2006 and 2010, respectively, by "all requirements" purchased power contracts with Exelon Generation.
- ComEd's capital expenditures have been decreasing steadily since 2000.
- Low-cost supply portfolio consisting of approximately 40,000 megawatts with diverse fuel mix (largely nuclear-fueled and fossil-fired), geographic locations (Pennsylvania-New Jersey-Maryland and ECAR), and dispatch flexibility.
- Excellent operating performance continues at Exelon Generation's nuclear generating facilities.
- Low production costs of the company's nuclear plants enhance Exelon Generation's regional competitive position.
- Exelon continues to achieve cost savings through productivity efficiency and cost cutting initiatives.
- Exelon remains a domestic diversified utility, with no political and currency risk exposure.
- Exelon Generation recently agreed to sell 50% of Sithe Energies, Inc. to Reservoir Capital Group in exchange for $75.8 million in cash.
- In May 2004, Exelon Generation transferred ownership of Boston Generating (BG) and its power plants to the lenders. In September 2004, the company transferred responsibility for plant operations and power marketing of BG.

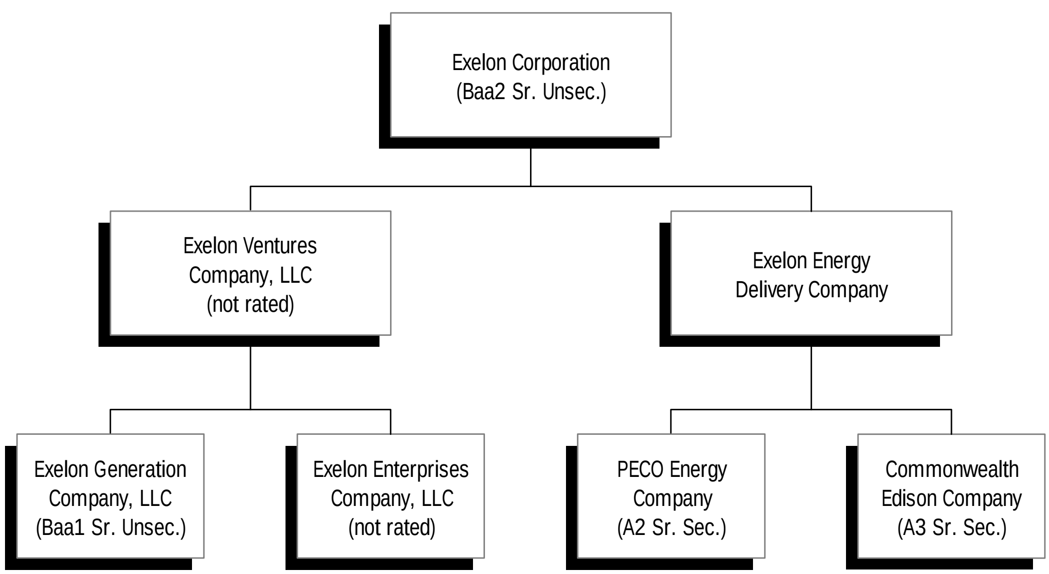
## Risks/Weaknesses

- Business risk and exposure to market price volatility if Exelon expands its non-regulated generation business.
- Nuclear generating plants at Exelon Generation represent asset concentration.
- Weak nuclear operating performance could require Exelon Generation to purchase replacement power to honor its all requirements contracts with Commonwealth Edison and PECO.
- Management will be challenged to mitigate the effects of both rate reductions and lost revenues from customers choosing alternative retail electricity providers at PECO Energy and Commonwealth Edison.
- Potentially large merchant revenue exposure after December 2006 when Exelon Generation's full requirements contract with Commonwealth Edison expires and is not extended.
- Potential capital spending to comply with environmental requirements associated with Exelon Generation's fossil-fired plants.
- Unsuccessful restructuring of Sithe Energies' generating assets could expose the company to merchant energy risk and a higher level of non-recourse debt.
- Future acquisition of generating assets or a utility system could compromise the parent company's credit quality.

## Company Fundamentals

Exelon Corporation is the holding company for both its regulated and non-regulated subsidiaries, including Exelon Energy Delivery Company, Exelon Generation Company, LLC (Exelon Generation), and Exelon Enterprises Company, LLC. Exelon Energy Delivery is an intermediate holding company for PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd), both regulated transmission and distribution utilities. (Please refer to Exelon's corporate structure chart below.)

**TABLE 1: ORGANIZATION CHART**



## ENERGY DELIVERY CONTINUES TO DRIVE EARNINGS

Exelon's Energy Delivery segment, consisting of the retail electricity distribution and transmission businesses of ComEd in northern Illinois and PECO's electricity and natural gas transmission and distribution businesses in southeastern Pennsylvania, continues to provide the bulk of consolidated earnings. Moody's views the regulated business as credit positive for Exelon as ComEd and PECO's regulated revenue base offsets the more risk inherent businesses at both Exelon Generation and Enterprises. At year-end 2003, Energy Delivery's net income of $1.18 billion and earnings before interest and taxes (EBIT) of $2.6 billion represented approximately 130% and 118% of Exelon's consolidated earnings and consolidated EBIT of $905 million and $2.2 billion, respectively. At year-end 2003, Exelon Generation reported a net loss of $133 million due to an impairment charge for Boston Generating, LLC.

Total retail energy deliveries of approximately 122.5 million megawatt-hour (MWh) at both ComEd and PECO were allocated relatively evenly between its residential, commercial, and industrial customers in both 2003 and 2002.

ComEd's service territory is comprised of an area of approximately 11,300 square miles with an estimated population of 8 million at year-end 2003. ComEd had approximately 3.6 million customers at year-end 2003. PECO's service territory covers 2,100 square miles in southeastern Pennsylvania of which it provides delivery service in an area spanning approximately 2,000 square miles. At year-end 2003, PECO's customer base included approximately 1.5 million electric and 460,000 natural gas customers.

## EXELON GENERATION

Exelon Generation, an indirect wholly-owned subsidiary of Exelon, is one of the largest competitive electric generation companies in the U.S. It directly owns generation assets with a total net capacity of approximately 28,492 megawatts. The owned generating resources of Exelon Generation are located primarily in the Midwest, the Mid-Atlantic, New England, and the Texas regions. Approximately 60%, or 16,959 megawatts, is derived from the company's fleet of low-cost, nuclear generation plants. Exelon Generation also controls an additional 12,700 megawatts of capacity in the Midwest, Southeast and South Central regions through various long-term power purchase agreements.

During the third quarter of 2003, Exelon Generation took an impairment charge of approximately $573 million (after taxes) for its Boston Generating (BG) related assets, following the company's announcement that it would seek an orderly transition out of ownership of these assets. The BG related assets, including the Mystic Station, Mystic 8 and 9 and Fore River generating units, were part of the Sithe New England Holdings, LLC's acquisition completed in November 2002. In May 2004, Exelon Generation transferred ownership of BG and its power plants to the lenders with an agreement to maintain plant operation and power marketing through August 31, 2004. On September 1, 2004, Exelon Generation successfully completed the transfer of plant operations and power marketing to a newly created entity established by the lenders.

Prior to November 2003 Exelon Generation held a 49.9% interest in Sithe Energies, Inc (Sithe). In May 2003, Exelon Generation exercised the call option to acquire the remaining 50.1% of Sithe that it did not own. This transaction was completed in November 2003. In conjunction with this transaction, in November 2003, Exelon Generation agreed to sell 50% of Sithe to Reservoir Capital Group in exchange for $75.8 million in cash. The sale was consummated during the fourth quarter of 2003 after Exelon Generation closed on the call transaction announced in May 2003. Both Exelon Generation and Reservoir Capital now have the option to purchase the remaining 50% interest in Sithe. This latest development bodes well for Exelon Generation's credit profile, as it will be able to lower non-recourse debt, mitigate merchant energy exposure, and shed qualifying facilities. Current plans include the divestiture of all of Sithe's generating assets in the near future.

Exelon Generation's business is characterized by a large, low-cost, generation portfolio comprised largely of nuclear generation. At year-end 2003, Exelon Generation owned or had investments in 19 nuclear units, including 100% share of AmerGen. Exelon Generation's nuclear plants continue to benefit from stable fuel costs and safe operating track records. However, such reliance on nuclear generation does add some degree of operational, regulatory and safety risk.

In 2003, approximately 60% of Exelon's generation supply was derived from its nuclear generating facilities. At June 2004, Exelon Generation's nuclear generation plants operated at a 93.3% capacity factor, which represents excellent operating performance.

### POWER TEAM

Exelon Generation's wholesale marketing unit, Power Team, is a marketer of energy that uses Exelon Generation's generation and transmission capabilities to ensure delivery of generation to its wholesale customers under long- and short-term contracts. Power Team is the entity responsible for providing both ComEd and PECO's load requirements and remarkets the remaining energy into the wholesale and spot markets.

### ENTERPRISES

Enterprises consists primarily of the infrastructure services business of InfraSource, Inc., the energy services business of Exelon Services, Inc, the competitive retail energy sales business of Exelon Energy, the district cooling business of Exelon Thermal Technologies, Inc., communications joint ventures and other investments in the communications, energy services and retail services industries.

Since its inception, Enterprises has dampened consolidated earnings. However, these losses have been narrowing due to continued divestiture of its non-core investments. Management has stated its intent on focusing on Enterprises' current businesses, rather than pursuing additional investments. In addition, Enterprise's investments are continually being evaluated to determine the long-term viability of each business and its role in the company's ongoing strategy. In April 2002, Enterprises sold its share of AT&T Wireless PCS of Philadelphia for $285 million in cash and realized a one-time, after-tax, gain of $116 million during 2002. In the fourth quarter of 2003, Exelon sold InfraSource for $175million in cash and a $30 million note receivable. During the first and second quarter of 2004, Exelon sold three units of Exelon Services, one telecommunications joint venture and one Chicago business of Exelon Thermal for total sales proceeds of approximately $220 million. As a result of these asset sales, the book value of Enterprises' remaining investments totaled approximately $90 million at June 30, 2004. Management expects the remaining investment will be sold in the near term.

## Management Strategy and Competitive Position

Exelon remains focused on becoming the largest integrated electric utility system in North America. While the company has the objective to continue expanding its generation, power marketing, and delivery businesses in both the electric and gas sectors, management also has the desire to reduce its operating and financial risks in light of today's economy and weak wholesale power market. Exelon has implemented a balanced approach in achieving its growth objectives while maintaining consistency in its results. Exelon's retail load base of roughly 5 million customers serves to mitigate the impact of its more risky non-regulated generation operation. Maintenance of the company's strong and predictable cash flow derived from its regulated utility operations is a top priority of Exelon's management team.

Prospectively, Exelon remains focused on ensuring that it continues to provide safe, reliable, and low-cost power to its customers. As the largest nuclear generator in the U.S., Exelon remains the focal point of both regulators and environmental agencies. As a result, Exelon intends to continue its efforts in improving the operation and efficiency of its asset base. In doing so, management has set goals in making significant and permanent reductions in its operating costs. Further cost savings and operating efficiency are expected to benefit both the company and its investors.

In the past, Exelon's pursuit of diversified energy businesses through Exelon Enterprises brought with it some challenges, which have led to the sale of its telecommunications, energy services and thermal businesses and some write-downs of energy-related and communications investments. Currently, management continues to review all of its non-regulated investments and has achieved significant milestones in divesting many of them, including the restructuring/divestiture of the Sithe assets and the December 2003 sale of 50% interest in Sithe's assets to Reservoir Capital Group. Exelon continues its work at rationalizing and optimizing these businesses. Those businesses that are deemed to fit the company's long-term strategy will be developed while those that do not meet the company's objectives will likely be divested at a time that ensures maximum value.

We believe that the company's financial profile should remain relatively unchanged as future growth is expected to be largely supported by re-invested cash flow. We view this as a critical element to the company's maintenance of its current financial profile given its focus on growth and building scale and asset diversity in order to be successful in the restructured U.S. electricity markets. Exelon estimates its consolidated earnings to grow modestly by approximately 5% per year.

## Corporate Strategy for Growth

### GENERATION

Exelon is expected to continue to selectively grow its generation portfolio through a combination of asset acquisitions, new plant development, joint ventures, and through the use of long-term contracts with third-party suppliers. A critical element to Exelon Generation's strategy for growth is to continue to increase its generation output and improve overall efficiency. Management expects to achieve these goals in its nuclear fleet by increasing capacity factors, reducing refueling outage durations and increasing capacity through power uprates and various other plant modifications.

In addition to the initiatives directly linked to the company's generation fleet, other indirect initiatives have been undertaken by the company's power marketing and trading team. Exelon Power Team continues to strive to optimize the revenues of these generating assets through the use of long- and short-term contracts and spot market sales.

### EXELON GENERATION SUCCESSFULLY EXITED BOSTON GENERATING (BG)

As a result of Exelon Generation's continuing evaluation of the projects and discussions with the lenders in July 2003, Exelon Generation decided to commence an orderly transition process out of the ownership of BG and the projects. Exelon Generation informed the lenders of the company's decision to exit BG and it did not provide additional funding to the projects beyond contractual obligations. During the third quarter of 2003, Exelon Generation incurred an impairment of its BG related assets, of approximately $573 million, after taxes. The write offs did not violate any covenants or bond indenture provisions contained in debt obligations or bank credit facilities. The non-recourse debt outstanding under the BG facility of approximately $1 billion at December 31, 2003 was reflected on Exelon Generation's consolidated balance sheet as a current liability. In May 2004, Exelon Generation transferred its ownership in BG to the lenders. In September 2004, Exelon Generation transferred plant operations and power marketing to a newly created entity established by the lenders.

Exelon Generation plans to sell its 50% interest in Sithe to Reservoir Capital Group, which currently owns the remaining 50% interest, or to a third party, reflecting the company's ongoing efforts to divest all of its Sithe's assets. Both Exelon Generation and Reservoir Capital's 50% interests in Sithe are subject to put and call options that could result in either party owning 100% of Sithe. While Exelon Generation's intent is to fully divest Sithe, the timing of the put and call options vary by acquirer and can extend through March 2006. Any closing under either the put or call options is predicated upon obtaining state and federal regulatory approvals. Successful divestiture of Sithe will enable Exelon Generation to eliminate its risky non-core investment, lower its non-recourse debt by approximately $1 billion, and further reduce its merchant energy exposure.

### EXELON GENERATION'S 100% INTEREST IN AMERGEN ENERGY

Exelon Generation currently has a 100% interest in AmerGen Energy Co. LLC, the U.S. nuclear venture it formed with British Energy. AmerGen owns and operates the Clinton, Oyster Creek and Three Mile Island nuclear plants, which together generate approximately 2,500 MW of electricity. In December 2003, Exelon Generation purchased the remaining 50% interest in AmerGen from British Energy.

In June 2003, Exelon Generation entered into a purchased power agreement with AmerGen. Under the PPA, Exelon Generation has agreed to purchase 100% of energy generated by Oyster Creek through April 2009. Similarly, in 2002, Exelon Generation entered into a PPA with AmerGen to purchase 100% of energy generated by Three Mile Island Unit One through 2014.

### POWER MARKETING

Power Team is a division of Exelon Generation Company, LLC. The primary objective of Power Team is to sell and deliver physical power from its own portfolio of generating assets and to reduce earnings volatility through hedging. Power Team has conservative risk management policies and its objective is to optimize Exelon Generation's generating capability.

Exelon also reported that its Power Team is one of more than 100 companies asked to respond to the Federal Energy Regulatory Commission's (FERC) request for data in connection with its investigation of the California power markets during the period 2000 to 2001. Exelon responded to FERC that Power Team did not engage in any of the strategies put forth in the Enron memos referred to in FERC's data request.

### NUCLEAR FLEET REMAINS IN TOP QUARTILE FOR SAFETY AND EFFICIENCY

Exelon Generation's nuclear concentration continues to be quite significant. Taking recent acquisitions into account, nuclear power accounts for roughly 60% of the company's installed generating capacity (including 100% interest in AmerGen's nuclear facilities) at year-end 2003. The table set forth below illustrates Exelon Generation's installed nuclear capacity and ownership interest:

| Station | Location | No. of Units | Ownership % | Primary Fuel Type | Dispatch Type | Net Capacity MWs |
|---|---|---|---|---|---|---|
| Braidwood | Braidwood, IL | 2 | 100.0 | Uranium | Base-load | 2,388 |
| Byron | Byron, IL | 2 | 100.0 | Uranium | Base-load | 2,364 |
| Clinton | Clinton, IL | 1 | 100.0 | Uranium | Base-load | 1,030 |
| Dresden | Morris, IL | 2 | 100.0 | Uranium | Base-load | 1,742 |
| LaSalle County | Seneca, IL | 2 | 100.0 | Uranium | Base-load | 2,288 |
| Limerick | Limerick Twp, PA | 2 | 100.0 | Uranium | Base-load | 2,309 |
| Oyster Creek | Forked River, NJ | 1 | 100.0 | Uranium | Base-load | 625 |
| Peach Bottom | Peach Bottom Twp, PA | 2 | 50.0 | Uranium | Base-load | 1,131 |
| Quad Cities | Cordova, IL | 2 | 75.0 | Uranium | Base-load | 1,303 |
| Salem | Hancock's Bridge, NJ | 2 | 42.6 | Uranium | Base-load | 942 |
| Three Mile Island | Londonderry Twp., PA | 1 | 100.0 | Uranium | Base-load | 837 |
| | | | | | | 16,959 |

During 2003 and 2002, the nuclear generation facilities operated by Exelon Generation and AmerGen, operated at weighted average capacity factors of 93.4% and 92.7%, respectively. Management expects the capacity factor in 2004 to come in around 94%. The inability to meet this target could result in the need to contract or purchase in the spot market more expensive energy in order to meet its requirements. In 2003, Exelon Generation's sales totaled 224,672 GWh, of which, approximately 52% of those sales were to affiliates. Exelon Generation's nuclear fleet supplied 60% of this requirement with the remainder comprised largely of purchases and, to a lesser extent, capacity from its fossil and hydro units. Exelon Generation increased the power capacity at its existing plants through power uprates and plant modification and refinements over the last several years and has boosted nuclear capacity levels by over 850 megawatts through 2003.

Exelon Generation's nuclear fleet operates with a continuous improvement philosophy, as evidenced by key performance measures. Fleet capacity factor continues to improve year over year at values well over 90% and production cost continues to fall year over year. Operating as a fleet allows lessons learned from one site to be effectively shared with other sites in the fleet, allowing the nuclear division to capitalize on its economies of scale to achieve short refueling outages and safe operational performance.

## Regulation and Rates

Electric utility restructuring legislation was adopted in Pennsylvania in December 1996 and in Illinois a year later in December 1997.

### *ComEd*

As of December 31, 2000, all non-residential customers were eligible to choose a new electric supplier or elect the power purchase option (PPO), which allows the purchase of electric energy from ComEd at market-based prices. At year-end 2001, only 22% of ComEd's non-residential customers opted to receive their energy from an alternative retail electric supplier or had chosen the PPO option. In May 2002, ComEd's residential customers became eligible to choose a new electric supplier.

Illinois legislation also provided for residential base rate reductions, a sharing mechanism with its customers, and a base rate freeze through December 31, 2006. A 15% residential base rate reduction was implemented on August 1, 1998 with a further 5% reduction that occurred in October 2001. The established sharing mechanism requires that one-half of the earned return on equity that exceeds the given threshold amount must be refunded to its customers. The threshold rate of return on common equity is based on the 30-Year Treasury Bond rate plus 8.5% in the years 2000 through 2004. ComEd does not expect to trigger the earnings sharing provision during the remaining years of the sharing mechanism.

In 2003 and 2002, ComEd collected approximately $300 million of competitive transition charge (CTC) revenue annually. ComEd expects that this revenue source will decline to approximately $180 million to $200 million in each of the years 2004 through 2006 due to changes in certain factors, including changes in energy prices and the ability of certain customers establishing fixed, multi-year CTC rates beginning in 2003. Under the current restructuring statute, no CTCs will be collected after 2006. After the transition period ends on December 31, 2006, ComEd's bundled rates may be reset through a regulatory approval process, which may include traditional or innovative pricing, including performance-based incentive mechanism for the company. To prepare for post 2006 transition, ComEd is currently working with Illinois state regulatory and business constituencies to facilitate the development of a competitive electricity market, while providing system reliability.

In April 2002, the Illinois Commerce Commission (ICC) issued an interim order in ComEd's Delivery Services Rate Case. This order was subject to an audit of test year expenditures, which was completed in early 2003. The ICC and interested parties reached a favorable Global Settlement in March 2003, which permitted ComEd to extend its full requirements contract with Exelon Generation through December 2006 and the recovery of nuclear decommissioning costs through December 2006. In addition, the settlement eliminated the proposed audit disallowances. This order also set new delivery rates for those customers who exercised their option to choose a new electric supplier, granted in May 2002. Traditional bundled rates for those customers that retain ComEd as their electricity supplier are not affected by this new order. As part of the Global Settlement, the ICC could reopen the settlement if ComEd were to experience significant under-recovery.

In November 2003, FERC authorized ComEd to put into effect beginning April 2004, subject to refund and rehearing, new transmission rates to reflect approximately $500 million of infrastructure investments made since 1998. However, under Illinois current retail rate freeze and existing competitive transition charge calculation, the new transmission rate increase is not expected to have a significant impact on ComEd's operating revenues until after December 31, 2006. In January 2004, ComEd made a filing with FERC, indicating that it will not implement the new transmission rates before May 1, 2004. On August 31, 2004, ComEd and the active participants in its transmission rate case filed an uncontested settlement with FERC to establish a new revenue requirement and new rates for ComEd transmission and scheduling/dispatch services under the PJM tariff. FERC has not issued a final rule on the settlement but has permitted PJM to implement the settlement agreement on an interim basis as of September 1, 2004 until a final order is issued.

### *PECO's Electric Business*

Under the Pennsylvania Electricity Generation Customer Choice and Competition Act, all of PECO's retail electric customers have the right to choose their generation providers. By year-end 2003, the vast majority of customers who had earlier selected alternative suppliers returned to PECO due to relatively high prices charged by alternative suppliers as a result of continued high natural gas prices.

PECO's settlement of its restructuring case mandated by the Competition Act required PECO to provide generation services to customers who do not or cannot choose an alternate supplier through December 2010 and established rate caps on both generation and distribution rates. The settlement also authorized PECO to recover $5.3 billion of stranded costs over a 12-year period and securitize up to $4.0 billion of its stranded cost recovery. In 1999, PECO issued $4 billion of securitized debt. Subsequently, in 2000, PECO was authorized by the Pennsylvania Public Utility Commission to issue an additional $1 billion of securitization bonds. This resulted in a one-year $60 million rate reduction in 2001.

PECO's distribution rates have been capped through December 31, 2006 at the level in effect on December 31, 1996. Generation rates are capped through December 31, 2010. The generation cap currently in effect is $0.0698 per kWh, which escalates to $0.0751 per kWh in 2006 and $0.0801 per kWh in 2007.

### *PECO's Natural Gas Business*

Effective July 1, 2000, the Pennsylvania Natural Gas Choice and Competition Act expanded the choice of gas suppliers to residential and small commercial customers and eliminated the 5% gross receipts tax from gas distribution companies' sales of gas.

PECO's gas rates are subject to periodic adjustments by the PPUC and are designed to recover from or refund to customers the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates. The commodity charge comprises approximately two-thirds of the overall PECO amount customers pay. Unlike oil or propane dealers, rates charged by natural gas utilities are regulated by the state public utility commission. Rates for PECO established on December 1 remain in place for a year, although quarterly adjustments are allowed depending on fluctuations in the wholesale fuels market.

PECO delivers natural gas to 460,000 customers in Bucks, Chester, Delaware and Montgomery counties. This new rate does not affect gas consumers in the City of Philadelphia who are served by Philadelphia Gas Works (PGW).

## Financial Analysis

Exelon Corporation's Baa2 senior unsecured debt reflects the cash flow contributions and the financial and business risks of its regulated and unregulated subsidiaries, which include PECO Energy Company (PECO), Commonwealth Edison Company (ComEd), and Exelon Generation Company, LLC (Exelon Generation). Exelon's regulated electric and gas utility operations continue to provide for the majority of consolidated revenues, earnings, and cash flow.

In 2003, Exelon earned $905 million on revenues on $15.8 billion, representing a 37% decline in net income over 2002. This decline in earnings was mainly due to an impairment charge at Exelon Generation of $573 million in the third quarter of 2003. Additionally, impairment and transaction-related charges of $180 million were incurred on the investment in Sithe and there were severance and severance related charges of about $159 million associated with The Exelon Way. Moderate weather reduced kW hour deliveries in the energy delivery business and operating margins at the Enterprise business were lower due to the sale of InfraSource Inc. in the third quarter of 2003.

Financial results for the first half of 2004 showed marked improvement over the comparable period in 2003. Net income increased from $733 million for the six months ended June 30, 2003 to $933 million for the same period in 2004 on a lower revenue base due in part to decreased losses at Enterprises, an increase in net income at Exelon Generation, lower purchased power expenses and favorable tax effects from investments in synthetic fuel-producing facilities. Cash flows from operations also improved significantly from $1.2 billion for the six months ended June 30, 2003 to $1.9 billion in the first half of 2004.

### COST SAVING INITIATIVES EXPECTED TO FURTHER IMPROVE FINANCIAL RESULTS

In 2003, Exelon initiated a company-wide effort called The Exelon Way to increase cash flow by improving business processes, becoming more efficient, increasing revenues and controlling costs. The primary goal under The Exelon Way is to achieve annual cost savings of approximately $300 million, with an internal goal of reaching $650 million over the next three years. In addition to the numerous cost savings opportunities afforded to Exelon through realized synergies in connection with the Unicom/PECO merger in late 2000, Exelon expects the current company-wide cost reduction effort will enable the company to further strengthen its financial profile.

**Table 2: Summary Consolidated Financial Ratios (Interest excludes distributions on preferred securities)**

| Exelon Corporation | 12 Months Ended 6/30/04 | FYE 2003 | FYE 2002 |
|---|---|---|---|
| FFO Interest Coverage | 6.0x | 5.8x | 5.5x |
| FFO % Total Debt* | 31% | 27% | 28% |
| RCF % Total Debt* | 24% | 21% | 23% |
| RCF % Capital Expenditures + Net Investment | 131% | 103% | 95% |
| Total Debt/Capitalization* | 52% | 56% | 57% |

** Total debt excludes approximately $5.5 billion of securitized debt in 2003 and $6.3 billion of securitized debt in 2002, and includes $1.1 billion of non-recourse debt in 2002.*

Referring to the table above, Exelon's initiatives aimed at reducing costs and improving operating efficiencies and productivity have begun to bear fruit. Both the company's coverage ratios and capital structure have shown some improvement when compared to the prior two years. We believe that the company's financial profile will remain at or slightly higher than current levels as any further improvement through the remainder of 2004 and into 2005 will be dependent upon Exelon Generation's additional divestiture of the remaining Sithe assets to a third party and planned debt reduction at ComEd. Taking into account any further Sithe restructuring, we would expect that Exelon's FFO interest coverage to remain in the high-5 times to mid-6 times level on a sustainable basis and substantially lower amounts of debt to be assumed.

### COMED'S SIGNIFICANT GOODWILL MAY AFFECT ITS CAPITAL STRUCTURE

Exelon has approximately $4.7 billion of goodwill, all of which resides at ComEd, representing approximately 75% of its book equity, which arose in connection with the merger between Unicom and PECO in 1999. Under accounting rules that became effective in 2002, goodwill is no longer amortized and is instead tested at least annually for impairment. As ComEd nears the end of its regulatory transition period in 2006, there is potential for substantial goodwill impairment charges to be recognized over the course of the next couple of years. ComEd could experience a significant decrease in cash flows in periods after 2006 resulting from the expiration of competitive transition charges (CTC).

Over the last couple of years, ComEd has collected approximately $300 million per year in CTC revenues and is expected to collect approximately $180 million to $200 million in each of the years 2004 through 2006. In addition, ComEd recovers approximately $73 million per year from customers for nuclear decommissioning (which is effectively remitted to Generation) pursuant to an ICC order that will end in 2006. Unless regulatory relief is granted, these reductions in future cash flows will erode the fair value of ComEd such that its goodwill balance will no longer be able to be supported. Our analysis suggests that, absent regulatory relief, ComEd may be required to recognize goodwill impairment charges of $2-3 billion in the 2004-2005 timeframe with an additional $1-2 billion being written off in the 2005-2006 timeframe. As a result of the application of certain accounting rules, any such impairment charges likely will be recognized only at the ComEd level and will be eliminated in consolidation, because goodwill at the consolidated level is tested with both ComEd and PECO combined.

While normally the recognition of a non-cash charge is a non-event from an analytical perspective, we acknowledge that the potential of a charge of such magnitude at ComEd reduces the reliability of the debt to capitalization ratio, a key credit metric. As of December 31, 2003, this ratio, excluding securitization debt, was approximately 43% based on reported book values, 55% assuming a $2.5 billion reduction in book equity (a write-off of about one-half of the goodwill balance), and approximately 75% assuming a $4.7 billion reduction in book equity, a write-off of the entire goodwill balance. However, we note that such a charge at ComEd would not affect its access to Exelon's $1.5 billion in unsecured revolving credit facilities to which ComEd has access under a $100 million sub-limit, because this facility does not have a debt to capitalization covenant. We also note that a goodwill impairment charge would not have any impact on the determination of the cap of ComEd's allowed equity return during the regulatory transition period. In addition, the dividends that ComEd upstreams to Exelon of approximately $400 million per year could be put in jeopardy if retained earnings are materially reduced as a result of a goodwill impairment charge. Under Federal law, ComEd can pay dividends only from retained or current earnings; however, we note that ComEd has appropriated approximately $709 million of retained earnings for future dividend payments.

## PENSION PLAN PERFORMANCE

Pension plan assets had an actual return of $1,189 million in 2003, reflecting excellent performance of the markets. At December 31, 2003, the increase to other comprehensive income attributable to Exelon's pension plans is $26 million, net of income taxes. The recording of this adjustment to other comprehensive income does not affect earnings or cash flow in 2003 or violate any debt covenants. Exelon's long-term expected rate of return on plan assets was 9.0% for 2003 and 2004. In addition to any minimum required contributions, Exelon contributed discretionary tax-deductible plan contributions totaling $417.4 million in 2004 and expects to make additional contributions in 2005.

In 2001, Exelon adopted a cash balance pension plan, in which all newly hired management and electing union employees became participants in the plan. Management employees hired before 2001 had the choice to participate in the cash balance plan or remain in their traditional plans. Participants in the cash balance plans, unlike participants in the other defined benefit plans, may request a lump-sum cash payment upon employee termination. Exelon's funding requirements are not expected to increase due to this plan change.

## LIQUIDITY RISK ASSESSMENTS

Exelon Corporation's commercial paper program is rated Prime-2. Exelon Corporation has historically generated strong and stable cash flow, due largely to the regulated transmission and distribution operations of PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd). In general, Exelon maintains a satisfactory liquidity profile. Exelon generated over $3.4 billion in funds from operations during the 12-month period ended December 31, 2003, slightly lower than the amount generated in 2002. Exelon's operating cash flow has consistently been able to meet the majority of Exelon's primary funding requirements including capital expenditures and the payment of dividends. At December 31, 2003, Exelon had approximately $493 million in cash on its balance sheet. Exelon's consolidated capital spending was approximately $2.0 billion during 2003. For 2004, Exelon estimates approximately $1.9 billion of consolidated capital expenditures. Going forward, a more conservative capital budget will free up capital that can be used for reinvestment into the business or to further strengthen the company's financial condition. In addition, there is a significant degree of flexibility in the company's planned expenditures that would enable the company to free up additional cash flow if necessary without compromising the integrity of its asset base.

Exelon Corporation, ComEd, Exelon Generation and PECO all share a $1.5 billion unsecured revolving credit facility. At June 30, 2004, Exelon Corporation, along with ComEd, PECO and Exelon Generation participated in a $750 million 364-day unsecured revolving credit agreement expiring October 2004, and a $750 million 3-year unsecured revolving credit agreement expiring October 2006. On July 16, 2004, the $750 million 364-day facility was replaced with a $1 billion five-year facility, and the $750 million three-year facility was reduced to $500 million. The credit facility will be used primarily to support each entity's respective commercial paper programs and the issuance of letters of credit. There is a limited material adverse change clause in the committed credit facilities at the time of borrowing. In all the facilities described above, the material adverse change clause does not apply if the proceeds of the borrowing are used to repay maturing commercial paper. At the holding company level, Exelon Corporate's sub-limit is $550 million and $50 million of commercial paper was outstanding as of June 30, 2004. ComEd has a $100 million sub-limit, PECO has a $250 million sub-limit and Exelon Generation has a $600 million sub-limit under the facility. However, the amount of each entity's sub-limit may be increased up to $1.0 billion (if available under the $1.5 billion facility) within 5 business days to accommodate unexpected requirements. At June 30, 2004, Exelon consolidated balance sheet reflects $261 million of outstanding commercial paper for all the participants in the credit facility. Both PECO and ComEd had no outstanding commercial paper. Exelon Generation had $211 million outstanding commercial paper. Under the credit facility, there is a requirement for each entity to maintain a net cash flow from operation to net interest expense ratio (excluding interest expense associated with securitization debt, distributions on preferred securities, and interest expense associated with non-recourse debt for Exelon Corporation and Exelon Generation) at a minimum level. Exelon Corporation is required to maintain at least 2.65 to 1.0. At June 30, 2004, Exelon Corporation's interest coverage ratio was well in excess of the required minimum level.

## Related Research

**Corporate Governance Assessment:**

Exelon Corporation, June 2004 (87264)

**Financial Reporting Assessment:**

Exelon Corporation, August 2004 (88463)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

## Financial Statement Ratios

Financial Statement Ratios: Exelon Corporation

*To access any Financial Statement Ratios click on the entry above or to download Financial Statement Ratios in .csv format.*

*To order reprints of this report (100 copies minimum), please call 1.212.553.1658.*
Report Number: 89009

| **Author** | **Senior Production Associate** |
| --- | --- |
| *Mo Ying W. Seto* | *Nita Desai* |

FitchRatings

Corporate Finance

Global Power/North America
Credit Update

# Exelon Corp.

## Ratings

| Security Class | Current Rating | Previous Rating | Date Changed |
|---|---|---|---|
| Sr. Unsec. Notes | BBB+ | BBB | 5/2/01 |
| Commercial Paper | F2 | NR | 12/21/00 |

NR – Not rated.

**Rating Watch**................................................ None
**Rating Outlook**............................................Stable

## Analysts

Robert Hornick
1 212 908-0523
robert.hornick@fitchratings.com

Robert Metcalf
1 212 908-0288
robert.metcalf@fitchratings.com

## Profile

EXC is a registered public utility holding company engaged through its subsidiaries in regulated electric and gas delivery operations and unregulated wholesale power generation. PECO and ComEd are the primary energy delivery businesses. The wholesale power business consists of the electric generating facilities and energy marketing operations of Exelon Generation. Wholesale marketing operations are conducted by Power Team, a unit of Exelon Generation.

### Related Research

- Commonwealth Edison Co., Credit Update, July 11, 2005.
- PECO Energy Co., Credit Update, July 11, 2005.
- Exelon Generation Co. LLC, Credit Analysis, July 11, 2005.

### Key Credit Strengths

- Strong consolidated financial profile.
- Predictable earnings and cash flow of two regulated utility subsidiaries.
- Moderate merchant exposure of wholesale generating business.

### Key Credit Concerns

- Nuclear operating risk.
- Market uncertainty in Illinois after 2006, when the current transition period and rate freeze expire.

**July 11, 2005**

## ■ Rating Rationale

The ratings reflect Exelon Corp.'s (EXC) strong consolidated financial profile, predictable earnings and cash flow from its two regulated utility subsidiaries and moderate merchant exposure of its wholesale generating business. The current ratings and Stable Rating Outlook also consider the credit effect of the pending merger with Public Service Enterprise Group Incorporated (PSEG, senior unsecured debt rated 'BBB' by Fitch Ratings), which is considered neutral for credit quality, primarily because of the plan to fund 100% of the acquisition with new shares of EXC common stock. The primary credit concerns are nuclear operating risk associated with EXC's significant reliance on nuclear generation to serve its contractual supply commitments and regulatory uncertainty in Illinois after 2006, when the current transition period and rate freeze expire. To counterbalance the nuclear risk, regulatory uncertainty and anticipated merger, EXC maintains a credit profile that is strong for the rating category and superior to its peer group of parent holding companies. Leverage and interest coverage measures will decline from current levels due to recent financing activities and the proposed merger with PSEG (see Recent Developments section below) but will continue to support the current ratings.

## ■ Recent Developments

On Dec. 20, 2004, EXC entered into an agreement to merge with PSEG in an all-stock transaction valued at approximately $28 billion, including the assumption of approximately $14 billion of consolidated debt. Approximately $3.3 billion of the assumed debt is considered off-credit securitization ($1.9 billion) and nonrecourse ($1.4 billion) debt, and an additional $1.2 billion is hybrid securities that Fitch attributes partial-equity credit. The combined entity is expected to have an adjusted debt ratio in the 46% range and an adjusted debt-to-EBITDA ratio of approximately 3.0 times (x) and will benefit from a large portfolio of low-cost coal and nuclear generation. Approximately 50% of projected EBITDA is expected to come from regulated distribution operations. Management estimates synergies will approximate $400 million–$500 million annually, with approximately 70% expected to come from nonregulated operations.

The merger was approved by the Federal Energy Regulatory Commission (FERC) on June 30, 2005, but is still conditioned on approval by a number of state and federal agencies, including the New Jersey Board of Public Utilities, the Pennsylvania Public Utility Commission, the Illinois Commerce Commission and the Nuclear Regulatory Commission, among others. The approval process is expected to take a minimum 12–18 months to complete and is by no means assured. The merged entity will own approximately 26% of the generation capacity within the PJM Interconnection (PJM) regional transmission organization. To alleviate market power concerns, the two companies have proposed to sell 4,000 megawatts (mw) of fossil-fired generating capacity in the region and transfer control of an additional 2,600 mw of nuclear generation through long-term firm contracts and/or an auction.

On June 9, 2005, EXC issued $1.7 billion of senior notes. Proceeds were used to repay a portion of the $2 billion of outstanding short-term borrowings incurred to fund discretionary contributions to the company's pension plan. The debt issuance accelerates the company's previous plan to fund the pension shortfall by investing approximately $360 million annually for the next several years and is expected to increase cash flow by $160 million annually. Approximately 45% of the pension contribution is related to employees in regulated operations and is potentially recoverable in future rate proceedings.

## ■ Liquidity and Debt Structure

EXC meets its short-term liquidity requirements primarily through the issuance of commercial paper by EXC, PECO Energy Co. (PECO), Commonwealth Edison Co. (ComEd) and Exelon Generation Co. LLC (Exelon Generation). The companies share $1.5 billion of unsecured revolving credit facilities, including a $1.0 billion revolving credit agreement maturing on July 16, 2009, and a $500 million credit agreement maturing on Oct. 31, 2006. Both credit agreements are used principally to support commercial paper borrowings. EXC, PECO, ComEd and Exelon Generation have sublimits of $700 million, $300 million, $50 million and $450 million, respectively. The sublimits can be changed with 30 days notice to the bank group. The credit agreement requires maintenance of minimum cash from operations-to-interest coverage ratios of 2.65x, excluding revenue and interest expense attributable to transition debt for EXC, 2.25x for PECO and ComEd, and 3.25x for Exelon Generation. To provide additional short-term borrowing options, EXC operates an intercompany money pool. The three subsidiaries can participate as borrowers and lenders, with the parent as a lender only. As of March 31, 2005, EXC had $290 million of commercial paper outstanding and no borrowings under the credit facility.

## Financial Summary — Exelon Corp.
($ Mil., Fiscal Years Ended Dec. 31, 2005)

| | LTM 3/31/05 | LTM 3/31/04 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| **Fundamental Ratios (x)** | | | | | | |
| Funds from Operations/Interest Expense | 4.6 | 6.5 | 6.7 | 7.3 | 6.2 | 3.6 |
| Cash from Operations/Interest Expense | 4.2 | 6.5 | 7.3 | 6.6 | 6.2 | 3.7 |
| Debt/Funds from Operations | 5.4 | 3.5 | 2.4 | 3.6 | 3.2 | 2.7 |
| Operating EBIT/Interest Expense | 5.8 | 5.6 | 5.3 | 5.6 | 5.1 | 2.6 |
| Operating EBITDA/Interest Expense | 6.8 | 6.7 | 6.3 | 6.7 | 6.2 | 3.4 |
| Debt/Operating EBITDA | 2.5 | 2.8 | 2.4 | 3.0 | 2.7 | 2.2 |
| Common Dividend Payout (%) | 46.5 | 69.0 | 44.6 | 68.5 | 39.1 | 40.8 |
| Internal Cash/Capital Expenditures (%) | 44.1 | 119.5 | 147.8 | 111.8 | 112.2 | 117.7 |
| Capital Expenditures/Depreciation (%) | 345.5 | 320.2 | 332.9 | 357.2 | 319.5 | 238.6 |
| **Profitability** | | | | | | |
| Revenues | 13,378 | 14,419 | 13,467 | 14,857 | 13,895 | 13,899 |
| Net Revenues | 8,501 | 8,386 | 8,385 | 8,482 | 8,633 | 8,809 |
| O&M Expense | 3,946 | 4,378 | 3,976 | 4,508 | 4,345 | 4,394 |
| Operating EBITDA | 3,853 | 3,435 | 3,690 | 3,393 | 3,579 | 3,792 |
| Depreciation and Amortization Expense | 571 | 564 | 577 | 547 | 673 | 875 |
| Operating EBIT | 3,282 | 2,871 | 3,113 | 2,846 | 2,906 | 2,917 |
| Interest Expense | 563 | 512 | 585 | 505 | 573 | 1,107 |
| Net Income for Common | 1,973 | 956 | 1,864 | 905 | 1,440 | 1,428 |
| O&M Expense % of Net Revenues | 46.4 | 52.2 | 47.4 | 53.1 | 50.3 | 49.9 |
| Operating EBIT % of Net Revenues | 38.6 | 34.2 | 37.1 | 33.6 | 33.7 | 33.1 |
| **Cash Flow** | | | | | | |
| Cash Flow from Operations | 1,788 | 2,818 | 3,670 | 2,805 | 2,975 | 3,041 |
| Change in Working Capital | (252) | 24 | 362 | (365) | (18) | 203 |
| Funds from Operations | 2,040 | 2,794 | 3,308 | 3,170 | 2,993 | 2,838 |
| Dividends | (917) | (660) | (831) | (620) | (563) | (583) |
| Capital Expenditures | (1,973) | (1,805) | (1,921) | (1,954) | (2,150) | (2,088) |
| Free Cash Flow | (1,102) | 353 | 918 | 231 | 262 | 370 |
| Net Other Investment Cash Flow | (35) | 223 | 127 | 67 | (42) | (93) |
| Net Change in Debt | 23 | (1,070) | (1,988) | (655) | (590) | (603) |
| Net Change in Equity | 229 | 219 | 240 | 131 | 57 | 22 |
| **Capital Structure** | | | | | | |
| Short-Term Debt | 2,326 | 316 | 490 | 416 | 681 | 360 |
| Long-Term Debt | 7,416 | 9,456 | 8,264 | 9,819 | 8,829 | 7,933 |
| Total Debt | 9,742 | 9,772 | 8,754 | 10,235 | 9,510 | 8,293 |
| Preferred and Minority Equity | 88 | 688 | 129 | 87 | 214 | 187 |
| Common Equity | 9,713 | 8,004 | 9,423 | 8,503 | 7,742 | 8,102 |
| Total Capital | 19,543 | 18,464 | 18,306 | 18,825 | 17,466 | 16,582 |
| Total Debt/Total Capital (%) | 49.8 | 52.9 | 47.8 | 54.4 | 54.4 | 50.0 |
| Preferred and Minority Equity/Total Capital (%) | 0.5 | 3.7 | 0.7 | 0.5 | 1.2 | 1.1 |
| Common Equity/Total Capital (%) | 49.7 | 43.3 | 51.5 | 45.2 | 44.3 | 48.9 |

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes amounts due within one year and trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.

FitchRatings

Corporate Finance

Global Power/North America
Credit Update

# Commonwealth Edison Co.

## Ratings

| Security Class | Current Rating | Previous Rating | Date Changed |
|---|---|---|---|
| FMBs | A– | NR | 3/13/02 |
| Sr. Unsec. Debt | BBB+ | BBB | 12/17/99 |
| Preferred Stock | BBB | BBB– | 12/17/99 |
| Commercial Paper | F2 | D-1– | 6/1/00 |

NR – Not rated. FMB – First-mortgage bond.

**Rating Watch**................................................ None
**Rating Outlook**...........................................Stable

## Analysts

Robert Hornick
1 212 908-0523
robert.hornick@fitchratings.com

Robert Metcalf
1 212 908-0288
robert.metcalf@fitchratings.com

## Profile

ComEd, a wholly owned subsidiary of Exelon Corp., is a regulated electric T&D utility, serving approximately 3.7 million customers in northern Illinois. Electric utility restructuring was adopted in Illinois in 1997, and all of ComEd's customers are eligible to choose an alternative retail electric supplier. Most nonresidential customers can also opt to purchase electric energy from ComEd at market-based rates. ComEd has entered into a PPA with affiliate Exelon Generation to supply all standard-offer load requirements through December 2006, the end of the transition period. Bundled generation and distribution rates are frozen through 2006.

### Related Research

- Exelon Corp., Credit Update, July 11, 2005.
- Exelon Generation Co. LLC, Credit Analysis, July 11, 2005.
- PECO Energy Co., Credit Update, July 11, 2005.

### Key Credit Strengths

- PPA eliminates commodity price exposure through 2006.
- Very strong financial profile.

### Key Credit Concerns

- Regulatory uncertainty in the post-2006 transition period.
- Declining collections of competitive transition charges.

**July 11, 2005**

## ■ Rating Rationale

The ratings reflect Commonwealth Edison Co.'s (ComEd) strong financial profile, the relatively low risk of its regulated transmission and distribution (T&D) operations and a purchase power agreement (PPA) that transfers commodity price risk to an affiliate, Exelon Generation Co. LLC (Exelon Generation, rated 'BBB+' by Fitch Ratings). The full-requirements contract satisfies the company's provider-of-last-resort (POLR) obligation through 2006. After 2006, ComEd's supply obligation is uncertain, but there are strong indications that the Illinois Commerce Commission will adopt a competitive auction process to select energy suppliers who will undertake all commodity and price risk.

In the event ComEd retains the standard-offer obligation after 2006, which appears unlikely, potential commodity price risk is substantially mitigated by its affiliation with Exelon Generation, which provides a potential source of energy and the sourcing capability of its trading and marketing operation. Also, the expiration of the existing rate freeze in 2006 would permit ComEd to seek recovery of variable commodity costs. The primary credit concern continues to be the ongoing reduction in tariff revenue related to competitive transition charges (CTCs) and the ability to recover and earn a return on the significant T&D investments made over the past several years. CTCs are collected from customers that have chosen an alternative electricity supplier and are projected to decline to approximately $90 million–$110 million in 2005 and 2006, compared with $169 million and $304 million collected in 2004 and 2003, respectively. CTCs will be completely phased out by year-end 2006. The loss of CTC revenue has been partially offset by the decline in interest expense from the $1.2 billion debt reduction achieved in 2004 (see Recent Developments section below). The debt reduction improved credit quality and provides a cushion against CTC loss and the uncertain rate treatment after 2006.

## ■ Recent Developments

ComEd repaid $1.2 billion of outstanding long-term debt in 2004, including approximately $1.0 billion that was redeemed prior to maturity. The debt retirements, which are in addition to the repayment of $335 million of securitization debt, will reduce interest expense by approximately $70 million annually. Charges connected with the early retirements amounted to $130 million and were the primary contributor to a decline in net income in 2004. The debt reduction was largely funded by the receipt of $1.07 billion from the repayment of an intercompany note receivable that related to the transfer of ComEd's generating assets in 1997.

## ■ Liquidity and Debt Structure

ComEd's principal sources of liquidity are internal cash generation, commercial paper borrowings and participation in an intercompany money pool. ComEd also shares $1.5 billion of unsecured revolving credit facilities with its parent, Exelon Corp., and affiliates PECO Energy Co. and Exelon Generation. The credit facilities include a $1.0 billion revolving credit agreement maturing on July 16, 2009, and a $500 million credit agreement maturing on Oct. 31, 2006. Both credit agreements are used principally to support commercial paper borrowings. ComEd's aggregate sublimit under the credit facilities is currently $50 million. However, sublimits can be changed with 30 days' notification to the bank group. The credit agreements require ComEd to maintain a minimum cash from operations-to-interest coverage ratio of 2.25 times (x), excluding revenue and interest expense attributable to transition debt. As of March 31, 2005, ComEd had $24 million of borrowing capacity available under the credit facility, no commercial paper outstanding and $101 million invested in the money pool.

Forecasted capital expenditures of $742 million in 2005 are moderately higher than the $721 million expended in 2004. Internal cash generation, funds invested in the money pool and moderate external borrowings will be used to fund the capital outlays. Approximately 50% of the projected expenditures are for reliability improvements in the T&D network, with the remainder to support new business and customer growth. The 2004 debt reduction lowered the ratio of debt-to-funds from operations (FFO) to 3.3x in 2004 from 5.5x in 2003 and the ratio of debt-to-total capital to 32.8% in 2004 from 41.2% the prior year (all ratios exclude securitization debt and associated revenue and expenses). Leverage, as measured by the ratio of debt-to-FFO, is expected to rise in each of the next two years but should remain supportive of the existing ratings because of the substantial debt reduction.

FitchRatings

Corporate Finance

## Financial Summary — Commonwealth Edison Co.

($ Mil., Fiscal Years Ended Dec. 31, 2005)

| | LTM 3/31/05 | LTM 3/31/04 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| **Fundamental Ratios (x)** | | | | | | |
| Funds from Operations/Interest Expense | 5.5 | 3.7 | 4.7 | 3.8 | 4.3 | 3.6 |
| Cash from Operations/Interest Expense | 1.6 | 3.8 | 4.5 | 2.9 | 4.5 | 3.4 |
| Debt/Funds from Operations | 3.0 | 5.5 | 3.3 | 5.5 | 3.5 | 4.4 |
| Operating EBIT/Interest Expense | 5.1 | 4.6 | 5.4 | 4.7 | 4.4 | 3.5 |
| Operating EBITDA/Interest Expense | 5.4 | 4.8 | 5.7 | 4.8 | 4.9 | 4.3 |
| Debt/Operating EBITDA | 2.5 | 3.0 | 2.2 | 3.2 | 2.4 | 2.6 |
| Common Dividend Payout (%) | 87.5 | 55.2 | 67.6 | 56.7 | 59.5 | 79.6 |
| Internal Cash/Capital Expenditures (%) | (47.0) | 67.4 | 74.6 | 29.1 | 109.5 | 60.2 |
| Capital Expenditures/Depreciation (%) | 1,103.0 | 1,435.9 | 961.3 | 1,547.8 | 428.6 | 267.4 |
| **Profitability** | | | | | | |
| Revenues | 5,434 | 5,277 | 5,383 | 5,364 | 5,677 | 5,723 |
| Net Revenues | 2,559 | 2,821 | 2,795 | 2,863 | 3,092 | 3,053 |
| O&M Expense | 885 | 1,047 | 897 | 1,093 | 964 | 981 |
| Operating EBITDA | 1,384 | 1,508 | 1,607 | 1,503 | 1,841 | 1,776 |
| Depreciation and Amortization Expense | 66 | 50 | 75 | 46 | 182 | 325 |
| Operating EBIT | 1,318 | 1,458 | 1,532 | 1,457 | 1,659 | 1,451 |
| Interest Expense | 257 | 314 | 284 | 313 | 377 | 412 |
| Net Income for Common | 562 | 696 | 676 | 707 | 790 | 607 |
| O&M Expense % of Net Revenues | 34.6 | 37.1 | 32.1 | 38.2 | 31.2 | 32.1 |
| Operating EBIT % of Net Revenues | 51.5 | 51.7 | 54.8 | 50.9 | 53.7 | 47.5 |
| **Cash Flow** | | | | | | |
| Cash Flow from Operations | 150 | 866 | 995 | 608 | 1,324 | 1,006 |
| Change in Working Capital | (1,013) | 31 | (60) | (254) | 81 | (61) |
| Funds from Operations | 1,163 | 835 | 1,055 | 862 | 1,243 | 1,067 |
| Dividends | (492) | (384) | (457) | (401) | (470) | (483) |
| Capital Expenditures | (728) | (715) | (721) | (712) | (780) | (869) |
| Free Cash Flow | (1,070) | (233) | (183) | (505) | 74 | (346) |
| Net Other Investment Cash Flow | 1,210 | 16 | 1,207 | (181) | (3) | 411 |
| Net Change in Debt | (1,059) | (565) | (1,231) | 1 | (728) | (542) |
| Net Change in Equity | 978 | 451 | 175 | 451 | 344 | 0 |
| **Capital Structure** | | | | | | |
| Short-Term Debt | 0 | 0 | 0 | 0 | 71 | 0 |
| Long-Term Debt | 3,525 | 4,592 | 3,534 | 4,764 | 4,256 | 4,648 |
| Total Debt | 3,525 | 4,592 | 3,534 | 4,764 | 4,327 | 4,648 |
| Preferred and Minority Equity | 7 | 7 | 7 | 7 | 7 | 7 |
| Common Equity | 7,497 | 6,445 | 6,733 | 6,335 | 5,751 | 5,076 |
| Total Capital | 11,029 | 11,044 | 10,274 | 11,106 | 10,085 | 9,731 |
| Total Debt/Total Capital (%) | 32.0 | 41.6 | 34.4 | 42.9 | 42.9 | 47.8 |
| Preferred and Minority Equity/Total Capital (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Common Equity/Total Capital (%) | 68.0 | 58.4 | 65.5 | 57.0 | 57.0 | 52.2 |

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes amounts due within one year and trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.