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	3/14/06	% Change	
		Year-to-date	12 months
Dow Industrials	11,151	4	4
Philadelphia Electric Index	430	1	9
Exelon Corporation	56.20	6	21

## EXELON CORPORATION NYSE-\$56-Hold

### Earnings Snapshot and Recap by Subsidiary 2005/3

**Market Comment:** Exelon remains an industry favorite with 19 active recommendations -- 11 buy, 8 hold and 0 sell. Buy ratings, or the equivalent, are maintained by Lehman, Harris Nesbitt, Matrix, Wachovia, Jeffries, Atlantic Equities, Merrill Lynch, AG Edwards. The largest institutional holders are Capital Research (47 million shares), Wellington (41 million), State Street Corporation (24 million) and Brinson Partners (17 million). We had the shares rated sell but upgraded our recommendation to hold on January 26, 2006, following the Illinois Commerce Commission (ICC) approval of the bidding procurement plan. As to the acquisition of Public Service Enterprises (PEG-NYSE-\$68-not rated), management expects to close the deal late in the second quarter of 2006.

**Introduction:** Operating earnings of \$3.09 a share (GAAP-\$1.36 a share) in 2005 were up 11% over \$2.78 a share (GAAP \$2.78 a share) in 2004 and compare to \$2.61 a share (GAAP-\$1.38 a share) in 2003. Stand-alone earnings guidance is \$3.00 to \$3.30 a share for 2006 while "Street" consensus, as per Bloomberg Financial Service, exceeds the high-end at \$3.32 a share. Consensus estimate for 2007 is \$4.32 a share.

Table 1 reconciles differences between Exelon's GAAP and operating earnings for the three years ending 2005. It also lists book values and returns on book based on operating results. Exelon's return on book exceeded 20% in each of the past three years -- 22.9%- 2005, 20.5%-2004, 21.2%-2003.

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See pages 5 and 6 of report for Analyst's Certification and important disclosures.

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Table 1  
Exelon Consolidated

Column	(1)	(2)	(3)
\$ millions except per share	2005	2004	2003
GAAP Earnings	916	1,864	905
Per Share	1.36	2.78	1.38
Percent of consolidated			
GAAP Adjustments			
Impairment Goodwill	1.78		
Impairment Boston Generation		0.03	0.87
Synthetic Fuel Earnings	(0.10)	(0.10)	
Sithe Investment	0.03	(0.02)	0.28
PEG Related	(0.03)	(0.01)	
Spent Fuel Settlement		(0.04)	
Early Debt Retirement		0.12	
Goodwill Impairment			0.03
Other Impairment			0.03
SFAS 143 Benefit			(0.17)
FIN-47	0.06		
FIN-46-R		(0.05)	
Property Tax Accruals			(0.07)
CWE March Settlement			0.03
Severance		0.07	0.24
Total GAAP & Other	1.74	0.00	1.24
Ongoing Earnings	3.09	2.78	2.61
Percent of Ongoing Earnings			
Average Book Value	13.50	13.54	12.33
Percent Average Book			
Return on Average Book	22.9	20.5	21.2
Shares Diluted	676	669	658

Last year's controversy in Illinois stemmed from prospective huge rate increases for Commonwealth Edison customers following the end of the rate freeze as of 12/31/06. Customers, and by extension politicians, resent paying fossil fuel based prices from what was once captive nuclear generation. John Rowe, Exelon Chief Executive Officer, played hard ball threatening bankruptcy or the spin off of Commonwealth Edison and severed management ties between the parent and Commonwealth Edison. In its year-end release the company showed results by subsidiary, rather than business lines of distribution and generation. (Financial statements by subsidiary were always available in the 10Ks.) It's obvious that distribution businesses (Commonwealth Edison and Peco Energy) have become expendable components in management's long-term strategy.

Table 2 extends Table 1 and reconciles differences between operating and GAAP earnings by subsidiary for the three years ending 2005. The overriding theme is the rising contribution of Generation and the declining importance of Distribution businesses, particularly Commonwealth Edison. Exelon consolidated results are repeated and shown in columns 1-3, Commonwealth Edison - columns 4-6, PECO Energy - columns 7-9, Generation - columns 10-12 and Other in columns 13-15. Table 2 also lists book values, earnings per share and returns on common by subsidiary.

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Generation earned \$1.71 a share in 2005, roughly 55% of consolidated \$3.09 a share, combined Distribution businesses 50%, and Other a negative 5%. Two years earlier in 2003, Generation earned \$0.67 a share, only 26% of consolidated, while Distribution accounted for 72% and Other 2%. Commonwealth Edison profits have dropped from 46% of total to 25%. Peco's percentage contribution remained fairly level at about 25%.

**Commonwealth Edison:** CWE earnings declined 33% in 2005 to \$0.77 a share from \$1.15 a share. The drop stemmed primarily from higher purchased power costs following renegotiation of its full requirement agreement with Generation. Effective in late-2004, purchased power rates increased an average of \$7/megawatt hour, from \$31-\$32 to \$37-\$38. Since CWE rates are frozen, higher purchased power costs (\$800 million based on 2005 volumes) reduced Commonwealth Edison earnings but raised Generation profits, leaving consolidated corporate earnings unchanged. Commonwealth Edison's return on book declined to 8.1%, down from 11.4% in 2004, and 13.1% in 2003.

Commonwealth Edison book value is distorted (our term) by goodwill of \$5.14 a share (\$3,475 million) as of year-end. The merger creating Exelon (Unicom and PECO Energy) produced \$5 billion in goodwill, all of which was allocated to Commonwealth Edison's balance sheet. SFAS 142 states that goodwill is to be assigned to those businesses that benefit from consolidation. At the very least that entry is at odds with subsequent events, i.e., Rowe's threats concerning Commonwealth Edison. According to the accountants, Generation was along for the ride.

Commonwealth Edison's regulated rate base is about \$7,465 million (distribution \$6,189 million – transmission \$1,276 million). The current cost of capital rate case will determine capital structure and rates of return, but if we assume the commission approves a 50% common equity component, the regulated book value (distribution and transmission) works out to \$5.52 a share (\$3,732 million). If we next assume the commission allows a 10% return on common, Commonwealth Edison's allowed earnings would approach \$0.55 a share (\$373 million). By comparison, in 2003 Commonwealth Edison earned \$794 million and in a report issued in September 2004, we estimated return on distribution equity rate base at over 28%, including CTC revenues and 20% excluding CTC receipts.

If Street consensus of \$4.32 a share proves accurate, Commonwealth Edison's relative contribution declines to only 13% in 2007. That low percentage indicates that management's threat to file bankruptcy or spin off CWE if regulators failed to approve the fuel procurement plan posed little risk for shareholders.

**Generation:** Management and market forces have put Generation in position to be the premier wholesale supplier. The company, as has the industry overall, sharply improved nuclear capacity factors. Returns have benefited from a strategy of aggressive write downs, lower depreciation rates as licensing lives were extended, and by management's decision not to burden the Generation balance sheet with goodwill. And as the nation's largest nuclear generator, life is good when natural gas prices are high.

Generation earnings of \$1.71 a share in 2005 were 84% over \$0.93 a share in 2004 and 154% higher than \$0.67 a share in 2003. Return on book has increased to 29.1% in 2005 compared to 20.5% in 2004 and 15.1% in 2003. Generation's return is poised to rise sharply. If one assumes the \$1.00 earnings increase to \$4.32 a share 2007 stems from Generation, its earnings would rise by \$676 million, raising 2005 results of \$1,159 million by 58%.

**Peco:** Peco's transition program is in place through 2010. The company earned \$0.76 a share in 2005, \$0.68 in 2004 and \$0.69 a share in 2003. Return on common was 30.1% in 2005, versus 39.9% in 2004 and 51.0% in 2003. Book value as presented is artificially depressed. Shareholders equity includes a \$1.82 a share (\$1,232 million) receivable from the parent, an entry that reverses in 2010. Return on book after adjusting for the receivable was 17.8% in 2005, compared to 17.3% in 2004.

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Table 2  
Exelon Corporation  
Subsidiary Earnings and Returns  
2005/3

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
\$ millions except per share	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
GAAP Earnings	916	1,864	905	(685)	676	701	513	452	468	1,098	673	(241)	(10)	63	(24)
Per Share	1.36	2.78	1.38	(1.01)	1.01	1.07	0.76	0.68	0.71	1.62	1.01	(0.37)	(0.01)	0.09	(0.04)
Percent of consolidated															
GAAP Adjustments															
Impairment Goodwill	1.78			1.78											
Impairment Boston Generation		0.03	0.87								0.03	0.87			
Synthetic Fuel Earnings	(0.10)	(0.10)											(0.10)	(0.10)	
Silthe Investment	0.03	(0.02)	0.28							0.03	(0.02)	0.28			
PEG Related	(0.03)	(0.01)											(0.03)	(0.01)	
Spent Fuel Settlement		(0.04)									(0.04)				
Early Debt Retirement		0.12													
Goodwill Impairment			0.03												0.03
Other Impairment			0.03												0.03
SFAS 143 Benefit			(0.17)												
FIN-47															
FIN-46-R	0.06	(0.05)				(0.01)				0.06	(0.05)	(0.16)			
Property Tax Accruals			(0.07)						(0.05)						
CWE March Settlement		0.07	0.24			0.03									
Severance					0.01	0.12					0.00	0.08		0.05	0.02
Total GAAP & Other	1.74	0.00	1.24	1.78	0.13	0.14	0.00	0.00	(0.02)	0.09	(0.08)	1.04	(0.13)	(0.06)	0.08
Ongoing Earnings	3.09	2.78	2.61	0.77	1.15	1.21	0.76	0.68	0.69	1.71	0.93	0.67	(0.14)	0.03	0.04
Percent of Ongoing Earnings															
Average Book Value	13.50	13.54	12.33	9.46	10.01	9.21	2.52	1.69	1.36	5.89	4.54	4.47	(4.37)	(2.69)	(2.70)
Percent Average Book				70	74	75	19	13	11	44	33	36	(32)	(20)	(22)
Return on Average Book	22.9	20.5	21.2	8.1	11.4	13.1	30.1	39.9	51.0	29.1	20.5	15.1	3.3	(1.2)	(1.6)
Shares Diluted	676	669	658												

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**Range of Formal Recommendations 15 total 1-buy-13-holds-1 sell**

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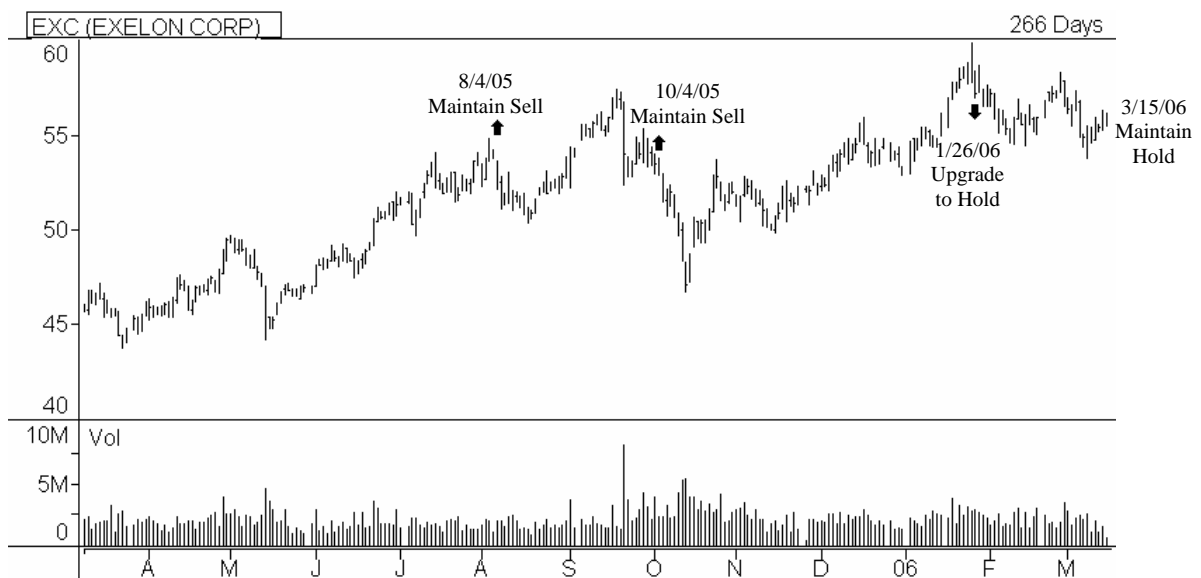
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**Buy** Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

**Market Perform & Hold** Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

**Under Perform** Total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

**Sell** Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.



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