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Follow-up to July 31, 2006 Conference Call

Dow Jones Industrials (8/2/06) - 11,199

Philadelphia Electric Index (8/2/06) - 461

Exelon Last 59

52-Week Range - \$60-\$47

Dividend \$1.60; Yield 2.7%

Rating: Hold

EXELON CORPORATION
EXC-NYSE-\$59

Management Should Take Responsibility for Goodwill Impairment

Second-Quarter Recap

Reported second-quarter non-GAAP earnings were \$0.85 a share (\$577 million) versus \$0.75 a share (\$506 million) in the prior comparable period. GAAP profits were \$0.95 a share (\$644 million) versus \$0.76 a share (\$514 million). Management reaffirmed 2006 non-GAAP earnings guidance of \$3.00 (minus 3%) to \$3.30 a share (plus 7%). A go or no-go decision on the acquisition of Public Service Enterprises (PEG-NYSE-\$70) is expected within two weeks.

The company detailed the disappointing Commonwealth Edison rate order issued August 31, 2006 by the Illinois Commerce Commission. The order granted an \$8 million increase, versus an Administrative Law Judge recommendation of \$164 million in June 2006 and the company's request for \$317 million. According to John Rowe, Chief Executive Officer, Commonwealth Edison's actual return on common could decline to 3% (\$0.13 a share) with most of the profit contributed by FERC-regulated transmission. The allowed return on common was set at 10%. Management further indicated that the ICC decision will require goodwill impairment charges, perhaps substantial. The good news according to Rowe is that the order recognized the legitimacy of the higher purchased power cost stemming from the auction process beginning January 1, 2007.

Goodwill Strategy during Transition

The acquisition of PECO Energy by Unicom, effective October 2001, created \$5 billion in goodwill (current balance \$3.8 billion). Accounting theory states that goodwill should be assigned to those segments that will benefit from the consolidation. If that's the case, the distribution and transmission businesses of Commonwealth Edison were the prime beneficiaries, since management placed the entire \$5 billion of goodwill on Commonwealth Edison's balance sheet. Even in 2001, that logic seemed absurd as management enthusiastically cited non-regulated Generation, particularly nuclear, as the growth vehicle for the newly-formed Exelon Corporation.

By assigning goodwill to Commonwealth Edison, asset values at Commonwealth Edison (and the regulated business in general) were overstated, and non-regulated Generation understated. Goodwill is a non-rate base item, making it highly unlikely that the premium would be fully recovered via the traditional regulatory process. By contrast, management increased the competitive profile for non-regulated Generation. In addition to the absence of a goodwill burden, Generation benefited from lower depreciation rates via life extensions (raising earnings by at least \$0.21 a share annually) and asset write-downs.

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See page 3 of report for Analyst's Certification, pages 3-4 for Important Disclosures and page 4 for Other Disclosures and Disclaimers

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Thanks to the FASB, goodwill became less of a concern for Commonwealth Edison following the passage of SFAS 142 in June 2001. Rather than amortizing the goodwill balance over 40-years, it became subject to impairment tests. The change seemed a win-win. Absence of amortization increased Exelon Corporation reported earnings by \$0.20 a share (8%) annually and impairment charges, when recorded, were ignored by the investment community as non-cash one-time items. But management belief that goodwill would be impaired, or eventually disappear, was evident in 2003. Write off of goodwill would create negative retained earnings at Commonwealth Edison, removing it as a source of dividends to the parent. As insurance, management again put the accountants to work; setting up a reserve at Commonwealth Edison titled "Appropriated Retained Earnings for Future Dividends" of \$1,099 million.

In 2003, Commonwealth Edison was Exelon's largest earnings contributor. Commonwealth Edison earned \$1.21 a share (46% of consolidated \$2.61 a share) on a book of \$9.21 a share (75% of consolidated) for a return on book (including goodwill) of 13.1%. We estimated the return on regulated pro forma common at 28%, including CTC receipts, and 20%, net of CTC. Returns of that magnitude would lead to rate cuts. But a consequence of the 2001 restructuring legislation increased purchased power expenses at Commonwealth Edison in 2004 transferring earnings to Generation while keeping overall profits unchanged.

Divestiture of Commonwealth Edison

Higher purchased power expenses dramatically altered Exelon's corporate profile. Pro forma Commonwealth Edison financials are now a modest component of consolidated results. Its book value net of goodwill works out to \$4.32 a share and earnings power of \$0.48 a share, based on an 11% return, accounts for only 10% of 2007 consensus of \$4.49 a share. Rowe's 3% return on common estimate would reduce Commonwealth Edison's contribution to 3%. Why not, as management has threatened to divest Commonwealth Edison? Divestiture could force full write off, wiping out Exelon's \$3.4 billion in retained earnings. The impairment calculation is based on the revenue stream of the entire distribution business including PECO Energy and divestiture could destroy that linkage, forcing Commonwealth Edison alone to support goodwill.

Full write off at Commonwealth Edison would increase an already negative retained earnings level of \$81 million as of 12/31/05 to a negative \$3.8 billion. The appropriated retained earnings level of \$1,099 million set in 2003 would represent just less than four years earnings power at \$290 million per year. Assuming 50% payout, or a reinvestment of \$145 million annually, it would take 26 years to eliminate negative retained earnings. A severely weakened Commonwealth Edison could be a tough sell, particularly if the cause stems from a debatable accounting entry that benefited the more profitable non-regulated business. A more logical solution may be to divest all the distribution properties, the timing of which could be determined by whether the company proceeds with the Public Service Enterprises acquisition.

Meanwhile, Generation earnings are expected to increase from \$0.67 a share to at least \$2.25 a share in 2007. Yet management, back in 2001, attributed zero value for goodwill to Generation.

Analyst's Certification

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Important Disclosures

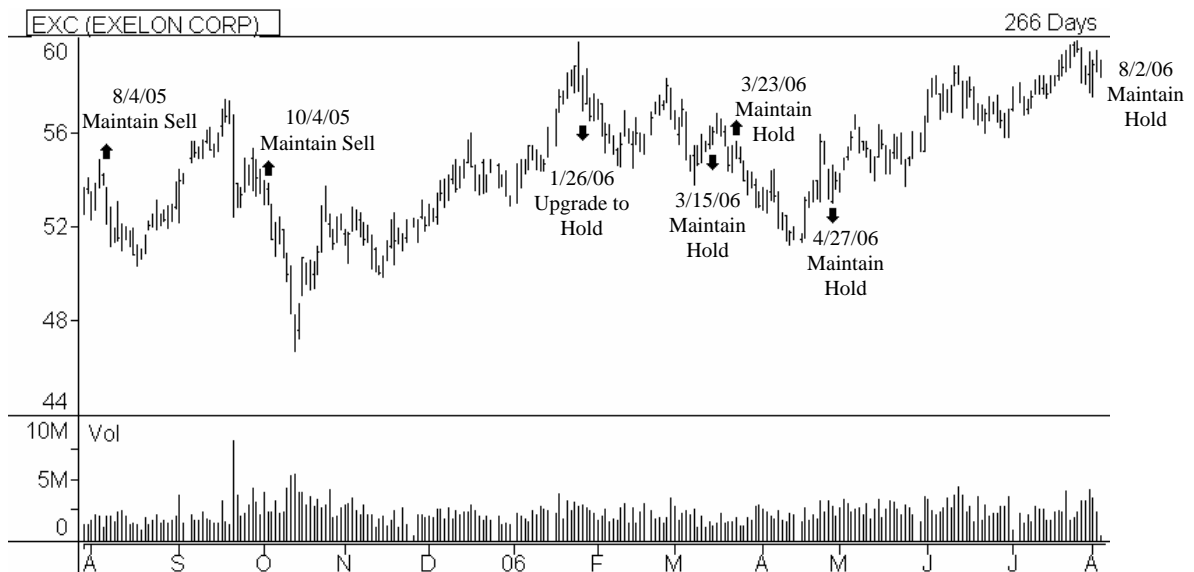
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Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

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.

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Range of Formal Recommendations 16 total 1-buy-14-holds-1 sell



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