

# NEWS RELEASE

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NYSE: POM

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## **Pepco Holdings Reports Second-Quarter 2011 Financial Results; Reaffirms Full-Year 2011 Earnings Guidance**

Pepco Holdings, Inc. (NYSE: POM) today reported second quarter 2011 earnings from continuing operations of \$95 million, or 42 cents per share, compared to \$76 million, or 34 cents per share, in the second quarter of 2010. There were no special items in either period. The weighted average number of basic shares outstanding for the second quarter of 2011 was 226 million compared to 223 million for the second quarter of 2010.

The increase in earnings from continuing operations in the second quarter of 2011, as compared to the 2010 quarter, was the result of higher distribution revenue (primarily due to higher distribution rates in certain jurisdictions driven by higher costs and increased investment in distribution assets to enhance reliability), higher default electricity supply margins (primarily due to an adjustment for the cost recovery of higher cash working capital costs), lower interest expense, and favorable income tax adjustments (including a favorable \$17 million (after-tax) interest income adjustment primarily related to a federal income tax settlement with the Internal Revenue Service (IRS) for prior tax years). Partially offsetting the earnings increases were higher Power Delivery operation and maintenance expense (primarily due to increased electric system preventative maintenance, increased tree trimming, and emergency restoration expenditures) and lower unbilled revenue associated with the Atlantic City Electric basic generation service.

“Our earnings from continuing operations reflect the effects of our investment in utility infrastructure and reasonable regulatory outcomes. Lower interest expense and tax adjustments also contributed to higher earnings,” said Joseph M. Rigby, Chairman, President and Chief Executive Officer. “During the quarter, we continued to make progress on a number of important Power Delivery initiatives. The investments made as part of our Reliability Enhancement Plan are on track and we are beginning to see positive trends in the operating performance of our electric system. Our Blueprint for the Future initiatives are moving forward as planned with advanced electric meter installations largely completed in Delaware, continuing in the District of Columbia, and underway in Maryland.” Rigby added, “For the remainder of 2011, we will remain focused on executing our business plan with the aim of reducing power outages, improving customer satisfaction, and earning our authorized rates of return.”

For the six months ended June 30, 2011, earnings from continuing operations were \$157 million, or 69 cents per share, compared to \$104 million, or 47 cents per share, for the same period in the prior year. There were no special items in either period. The weighted average number of basic shares outstanding for the six months ended June 30, 2011 was 226 million compared to 223 million for the same period in the prior year.

The increase in earnings from continuing operations for the six months ended June 30, 2011, compared to earnings for the same period in the prior year, was the result of higher distribution revenue (primarily due to higher distribution rates in certain jurisdictions driven by higher costs and increased investment in distribution assets to enhance reliability), higher transmission revenue (primarily due to increased investment in transmission assets), higher default electricity supply margins (primarily due to an adjustment for the cost recovery of higher cash working capital costs), lower interest expense, and favorable income tax adjustments (including a favorable \$17 million (after-tax) interest income adjustment primarily related to a federal income tax settlement with the IRS for prior tax years). Partially offsetting the earnings increases was higher Power Delivery operation and maintenance expense (primarily due to increased electric system preventative maintenance, increased tree trimming, and emergency restoration expenditures).

### **Discontinued Operations**

In 2010, the Board of Directors of Pepco Holdings approved a plan for the disposition of Conectiv Energy. The plan consisted of the sale of the wholesale power generation business, which was completed on July 1, 2010, and the liquidation of all of Conectiv Energy's remaining assets and businesses, which has been substantially completed. As a result of the plan of disposition, Conectiv Energy's results of operations for the 2011 and 2010 quarterly and year-to-date periods are reported as discontinued operations. For the year-to-date 2011 period, earnings from discontinued operations were \$1 million.

### **Earnings Guidance**

Pepco Holdings reaffirms its earnings guidance range for 2011 of between \$1.10 and \$1.25 per share. The guidance range excludes the results of discontinued operations and the impact of any special, unusual, or extraordinary items. The guidance range assumes normal weather conditions for the remainder of the year and excludes the net mark-to-market effects of economic hedging activities associated with the retail energy supply business of Pepco Energy Services.

### **Recent Events**

#### **Operations**

- Power Delivery electric sales were 11,823 gigawatt hours (GWh) in the second quarter of 2011, compared to 12,056 GWh for the same period in the prior year. In the electric service territory, cooling degree days decreased by 15% for the three months ended June 30, 2011,

compared to the same period in 2010. Weather adjusted electric sales were 11,580 GWh in the second quarter of 2011, compared to 11,457 GWh for the same period in the prior year, an increase of 1%. Due to the adoption of distribution revenue decoupling mechanisms in Maryland and the District of Columbia, approximately 64% of forecasted 2011 electric distribution revenue is not affected by weather.

- Through June 30, 2011, Delmarva Power had installed approximately 305,000 advanced meters in its Delaware electric service territory, largely completing the electric meter exchanges. Meter activation is expected to be completed in the third quarter of 2011. The Delaware Public Service Commission (DPSC) has approved the creation of a regulatory asset to defer Advanced Metering Infrastructure (AMI) costs between rate cases, as well as the accrual of a return on the deferred costs.
- Through June 30, 2011, Pepco had installed approximately 102,000 advanced meters in its District of Columbia service territory. Pepco expects to complete the meter exchanges by the end of 2011. The District of Columbia Public Service Commission (DCPSC) has approved the creation of a regulatory asset to defer AMI costs between rate cases, as well as the accrual of a return on the deferred costs.
- In June 2011, Pepco began full deployment of advanced meters in its Maryland service territory, with the goal of having the installations completed by the end of 2012. The Maryland Public Service Commission (MPSC) has approved the creation of a regulatory asset to defer AMI costs between rate cases, as well as the accrual of a return on the deferred costs.
- PJM Interconnection is in the annual process of evaluating the region's overall transmission needs. PJM has stated that it expects to complete this evaluation in August 2011. While the PJM process is not complete, we currently expect that the outcome of the evaluation will be a delay of the in-service date for the Mid-Atlantic Power Pathway (MAPP) project of several years beyond the currently planned in-service date of June 1, 2015.
- In the second quarter of 2011, Pepco Energy Services signed \$35 million in energy efficiency contracts.
- In the second quarter of 2011, Pepco Energy Services incurred \$2 million of net mark-to-market losses compared to \$1 million of net mark-to-market gains in the second quarter of 2010. For the six months ended June 30, 2011, Pepco Energy Services incurred \$4 million of net mark-to-market losses compared to \$1 million of net mark-to-market losses for the same period in the prior year. The mark-to-market losses/gains result from derivative contracts that economically hedge the delivery of electricity and gas to retail customers. The mark-to-market losses as of June 30, 2011 are expected to reverse upon Pepco Energy Services delivery of the underlying commodity to its retail customers.

## **Regulatory Matters**

- On July 8, 2011, Pepco filed an electric distribution base rate case in the District of Columbia. The filing seeks approval of an annual rate increase of \$42 million, based on a requested return on equity of 10.75%. A decision by the DCPSC is expected in the second quarter of 2012.
- On July 8, 2011, the MPSC approved the settlement agreement in Delmarva Power's electric base rate case. The MPSC granted a \$12 million annual increase in Delmarva Power's electric distribution base rates. The new rates were effective July 8, 2011. Although the return on equity was not specified in the proposed settlement, the Commission authorized that the return on equity for purposes of calculating the allowance for funds used during construction and regulatory asset carrying costs would remain unchanged. The current return on equity for those items is 10%. The MPSC also authorized a Phase II proceeding to explore methods to address the issue of regulatory lag.
- On June 21, 2011, the DPSC approved the settlement agreement in Delmarva Power's natural gas delivery base rate case. The DPSC granted a \$6 million annual increase in Delmarva Power's natural gas delivery base rates, based on a 10% return on equity. The new rates were effective July 1, 2011. As permitted by Delaware law, Delmarva Power implemented interim rate increases of \$2.5 million on August 31, 2010 and \$7.7 million on February 2, 2011. The excess amount collected will be returned to customers.

## **Financing**

- On August 1, 2011, Pepco Holdings, Pepco, Delmarva Power, and Atlantic City Electric entered into an agreement with a syndicate of lenders to amend the \$1.5 billion credit facility, including an extension of the term of the facility until August 1, 2016.
- On May 2, 2011, Delmarva Power purchased approximately \$35 million of 4.9% tax-exempt put bonds due 2026 pursuant to a mandatory repurchase obligation triggered by the expiration of the original interest period for the bonds. On June 1, 2011, Delmarva Power resold the bonds with a new interest rate of 0.75%. The bonds are subject to mandatory repurchase by Delmarva Power on June 1, 2012.

## **Cross-Border Energy Leases**

- In June 2011, at the request of the lessees, Pepco Holdings completed the early termination of a number of leases in its cross-border energy lease portfolio. The lease termination involved all of the leases comprising one of the eight cross-border lease investments and a small portion

of the leases comprising a second lease investment. Pepco Holdings received net proceeds of \$161 million and recorded an after-tax gain of \$3 million. The current annual tax benefits from the remaining cross-border energy lease investments are approximately \$52 million. As of June 30, 2011, the equity investment in the cross-border energy leases was \$1.3 billion.

- In January 2011, Pepco Holdings paid \$74 million of additional tax associated with the disallowed deductions from its cross-border energy lease investment in connection with the audit of its 2001 and 2002 income tax returns, plus penalties of \$1 million. In June 2011, Pepco Holdings paid \$28 million in interest associated with the disallowed deductions. On July 7, 2011, Pepco Holdings filed a refund claim for the additional taxes and related interest and penalties, which it expects the IRS to deny, and if so, Pepco Holdings intends to pursue litigation in the U.S. Court of Federal Claims against the IRS to defend its tax position and recover the tax payment, interest, and penalties. Absent a settlement, litigation against the IRS may take several years to resolve.

Further details regarding changes in consolidated earnings between 2011 and 2010 can be found in the following schedules. Additional information regarding financial results and recent regulatory events can be found in the Pepco Holdings, Inc. Form 10-Q for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission, which is available at [www.pepcoholdings.com/investors](http://www.pepcoholdings.com/investors).

## **Conference Call for Investors**

Pepco Holdings Inc. will host a conference call to discuss second quarter results on Friday, Aug. 5 at 11 a.m. E.T. Investors, members of the media and other interested persons may access the conference call on the Internet at <http://www.pepcoholdings.com/investors> or by calling 1-866-543-6403 before 10:55 a.m. The pass code for the call is 50463816. International callers may access the call by dialing 1-617-213-8896, using the same pass code, 50463816. An on-demand replay will be available for seven days following the call. To hear the replay, dial 1-888-286-8010 and enter pass code 34112348. International callers may access the replay by dialing 1-617-801-6888 and entering the same pass code 34112348. An audio archive will be available at PHI's Web site, <http://www.pepcoholdings.com/investors>.

Note: If any non-GAAP financial information (as defined by the Securities and Exchange Commission in Regulation G) is used during the quarterly earnings conference call, a presentation of the most directly comparable GAAP measure and a reconciliation of the differences will be available at <http://www.pepcoholdings.com/investors> promptly after the conclusion of the conference call.

**About PHI:** Pepco Holdings, Inc. (NYSE: POM) is one of the largest energy delivery companies in the Mid-Atlantic region, serving about 1.9 million customers in Delaware, the District of Columbia, Maryland and New Jersey. PHI subsidiaries Pepco, Delmarva Power and Atlantic City Electric provide regulated electricity service; Delmarva Power also provides natural gas service. PHI also provides energy efficiency and renewable energy services through Pepco Energy Services.

**Forward-Looking Statements:** Except for historical statements and discussions, the statements in this news release constitute "forward-looking statements" within the meaning of federal securities law. These statements contain management's beliefs based on information currently available to management and on various assumptions concerning future events. Forward-looking statements are not a guarantee of future performance or events. They are subject to a number of uncertainties and other factors, many of which are outside the company's control. Factors that could cause actual results to differ materially from those in the forward-looking statements herein include general economic, business and financing conditions; availability and cost of capital; changes in laws, regulations or regulatory policies; weather conditions; competition; governmental actions; and other presently unknown or unforeseen factors. These uncertainties and factors could cause actual results to differ materially from such statements. PHI disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to understand further the results and prospects of PHI.

Pepco Holdings, Inc.

Earnings Per Share Variance  
2011 / 2010

| 2nd Quarter   |                   |                             |                         |                        |                |
|---|-------------------|-----------------------------|-------------------------|------------------------|----------------|
|   | Power<br>Delivery | Pepco<br>Energy<br>Services | Other Non-<br>Regulated | Corporate<br>and Other | Total<br>PHI   |
| 2010 Net Income/(Loss) (GAAP) - Continuing Operations 1/        | \$ 0.29           | \$ 0.05                     | \$ 0.03                 | \$ (0.03)              | \$ 0.34        |
| <b>Change from 2010 Net Income/(Loss)</b>                       |                   |                             |                         |                        |                |
| Regulated Operations  |                   |                             |                         |                        |                |
| • Distribution Revenue  |                   |                             |                         |                        |                |
| — Weather (estimate) 2/   | (0.01)            | —                           | —                       | —                      | (0.01)         |
| — Rate Increases  | 0.02              | —                           | —                       | —                      | 0.02           |
| — Other Distribution Revenue                                    | 0.01              | —                           | —                       | —                      | 0.01           |
| • Network Transmission Revenue                                  | —                 | —                           | —                       | —                      | —              |
| • ACE Basic Generation Service (primarily unbilled revenue)     | (0.02)            | —                           | —                       | —                      | (0.02)         |
| • Standard Offer Service Margin                                 | 0.03              | —                           | —                       | —                      | 0.03           |
| • Operation & Maintenance                                       | (0.06)            | —                           | —                       | —                      | (0.06)         |
| • Depreciation  | (0.01)            | —                           | —                       | —                      | (0.01)         |
| • Other, net  | 0.01              | —                           | —                       | —                      | 0.01           |
| Pepco Energy Services   |                   |                             |                         |                        |                |
| • Retail Energy Supply  | —                 | (0.04)                      | —                       | —                      | (0.04)         |
| • Energy Services   | —                 | 0.01                        | —                       | —                      | 0.01           |
| Other Non-Regulated   | —                 | —                           | 0.01                    | —                      | 0.01           |
| Corporate and Other   | —                 | —                           | —                       | (0.01)                 | (0.01)         |
| Net Interest Expense  | —                 | 0.01                        | —                       | 0.07                   | 0.08           |
| Income Tax Adjustments  |                   |                             |                         |                        |                |
| • Interest Related to Tax Settlement (covering prior tax years) | 0.04              | —                           | 0.04                    | —                      | 0.08           |
| • Other Income Tax Adjustments, net                             | 0.02              | —                           | —                       | (0.04)                 | (0.02)         |
| 2011 Net Income/(Loss) (GAAP) - Continuing Operations 3/        | 0.32              | 0.03                        | 0.08                    | (0.01)                 | 0.42           |
| Discontinued Operations   | —                 | —                           | —                       | —                      | —              |
| <b>Total PHI 2011 Net Income</b>                                | <b>\$ 0.32</b>    | <b>\$ 0.03</b>              | <b>\$ 0.08</b>          | <b>\$ (0.01)</b>       | <b>\$ 0.42</b> |

1/ The 2010 weighted average number of basic shares outstanding was 223 million.

2/ The effect of weather compared to the 20-year average weather is estimated to have no impact on earnings per share.

3/ The 2011 weighted average number of basic shares outstanding was 226 million.

**Pepco Holdings, Inc.**

**Earnings Per Share Variance  
2011 / 2010**

|   | <b>June Year-to-Date</b>  |                                      |                                 |                                |                      |
|---|---------------------------|--------------------------------------|---------------------------------|--------------------------------|----------------------|
|   | <b>Power<br/>Delivery</b> | <b>Pepco<br/>Energy<br/>Services</b> | <b>Other Non-<br/>Regulated</b> | <b>Corporate<br/>and Other</b> | <b>Total<br/>PHI</b> |
| <b>2010 Net Income/(Loss) (GAAP) - Continuing Operations 1/</b> | <b>\$ 0.38</b>            | <b>\$ 0.11</b>                       | <b>\$ 0.05</b>                  | <b>\$ (0.07)</b>               | <b>\$ 0.47</b>       |
| <b><u>Change from 2010 Net Income/(Loss)</u></b>                |                           |                                      |                                 |                                |                      |
| Regulated Operations  |                           |                                      |                                 |                                |                      |
| • Distribution Revenue  |                           |                                      |                                 |                                |                      |
| - Weather (estimate) 2/   | 0.01                      | —                                    | —                               | —                              | 0.01                 |
| - Rate Increases  | 0.08                      | —                                    | —                               | —                              | 0.08                 |
| • Network Transmission Revenue                                  | 0.05                      | —                                    | —                               | —                              | 0.05                 |
| • ACE Basic Generation Service (primarily unbilled revenue)     | (0.01)                    | —                                    | —                               | —                              | (0.01)               |
| • Standard Offer Service Margin                                 | 0.05                      | —                                    | —                               | —                              | 0.05                 |
| • Operation & Maintenance                                       | (0.12)                    | —                                    | —                               | —                              | (0.12)               |
| • Depreciation  | (0.02)                    | —                                    | —                               | —                              | (0.02)               |
| • Other, net  | 0.02                      | —                                    | —                               | —                              | 0.02                 |
| Pepco Energy Services   |                           |                                      |                                 |                                |                      |
| • Retail Energy Supply  | —                         | (0.07)                               | —                               | —                              | (0.07)               |
| • Energy Services   | —                         | 0.02                                 | —                               | —                              | 0.02                 |
| Other Non-Regulated   | —                         | —                                    | 0.02                            | —                              | 0.02                 |
| Corporate and Other   | —                         | —                                    | —                               | —                              | —                    |
| Net Interest Expense  | —                         | 0.02                                 | —                               | 0.10                           | 0.12                 |
| Income Tax Adjustments  |                           |                                      |                                 |                                |                      |
| • Interest Related to Tax Settlement (covering prior tax years) | 0.04                      | —                                    | 0.04                            | —                              | 0.08                 |
| • Other Income Tax Adjustments, net                             | 0.06                      | —                                    | —                               | (0.06)                         | —                    |
| Dilution  | (0.01)                    | —                                    | —                               | —                              | (0.01)               |
| <b>2011 Net Income/(Loss) (GAAP) - Continuing Operations 3/</b> | <b>0.53</b>               | <b>0.08</b>                          | <b>0.11</b>                     | <b>(0.03)</b>                  | <b>0.69</b>          |
| <b>Discontinued Operations</b>                                  | <b>—</b>                  | <b>—</b>                             | <b>—</b>                        | <b>0.01</b>                    | <b>0.01</b>          |
| <b>Total PHI 2011 Net Income</b>                                | <b>\$ 0.53</b>            | <b>\$ 0.08</b>                       | <b>\$ 0.11</b>                  | <b>\$ (0.02)</b>               | <b>\$ 0.70</b>       |

1/ The 2010 weighted average number of basic shares outstanding was 223 million.

2/ The effect of weather compared to the 20-year average weather is estimated to have no impact on earnings per share.

3/ The 2011 weighted average number of basic shares outstanding was 226 million.



## SEGMENT INFORMATION

### Three Months Ended June 30, 2011

|   | <i>(millions of dollars)</i> |                             |                            |                               |                     |
|---|------------------------------|-----------------------------|----------------------------|-------------------------------|---------------------|
|   | Power<br>Delivery            | Pepco<br>Energy<br>Services | Other<br>Non-<br>Regulated | Corporate<br>and<br>Other (a) | PHI<br>Consolidated |
| Operating Revenue .....                             | \$ 1,093                     | \$ 308                      | \$ 14                      | \$ (6)                        | \$ 1,409            |
| Operating Expenses (b) .....                        | 957                          | 295                         | (38) (c)                   | (7)                           | 1,207               |
| Operating Income .....                              | 136                          | 13                          | 52                         | 1                             | 202                 |
| Interest Income .....                               | —                            | —                           | 1                          | (1)                           | —                   |
| Interest Expense .....                              | 52                           | 1                           | 4                          | 6                             | 63                  |
| Other Income .....                                  | 8                            | 1                           | —                          | 1                             | 10                  |
| Income Tax Expense (Benefit) (d) .....              | 20                           | 5                           | 30                         | (1)                           | 54                  |
| Net Income (Loss) from Continuing Operations .....  | 72                           | 8                           | 19 (c)                     | (4)                           | 95                  |
| Total Assets (excluding Assets Held For Sale) ..... | 10,803                       | 615                         | 1,461                      | 1,354                         | 14,233              |
| Construction Expenditures .....                     | \$ 204                       | \$ 6                        | \$ —                       | \$ 6                          | \$ 216              |

- (a) Total Assets in this column includes Pepco Holdings' goodwill balance of \$1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of \$(6) million for Operating Revenue, \$(4) million for Operating Expense, \$(5) million for Interest Income and \$(5) million for Interest Expense.
- (b) Includes depreciation and amortization of \$105 million, consisting of \$97 million for Power Delivery, \$5 million for Pepco Energy Services, \$1 million for Other Non-Regulated, and \$2 million for Corporate and Other.
- (c) Includes \$39 million pre-tax (\$3 million after-tax) gain from the early termination of finance leases held in trust.
- (d) Includes tax benefits of \$14 million for Power Delivery primarily associated with an interest benefit related to federal tax liabilities and a \$22 million reversal of previously recognized tax benefits for Other Non-Regulated associated with the early termination of finance leases held in trust.

### Three Months Ended June 30, 2010

|   | <i>(millions of dollars)</i> |                             |                            |                               |                     |
|---|------------------------------|-----------------------------|----------------------------|-------------------------------|---------------------|
|   | Power<br>Delivery            | Pepco<br>Energy<br>Services | Other<br>Non-<br>Regulated | Corporate<br>and<br>Other (a) | PHI<br>Consolidated |
| Operating Revenue .....                             | \$ 1,149                     | \$ 476                      | \$ 13                      | \$ (2)                        | \$ 1,636            |
| Operating Expenses (b) .....                        | 996                          | 453                         | 2                          | (8)                           | 1,443               |
| Operating Income .....                              | 153                          | 23                          | 11                         | 6                             | 193                 |
| Interest Income .....                               | 1                            | —                           | 1                          | (2)                           | —                   |
| Interest Expense .....                              | 53                           | 5                           | 3                          | 28                            | 89                  |
| Other Income .....                                  | 5                            | —                           | —                          | —                             | 5                   |
| Income Tax Expense (Benefit) .....                  | 41                           | 8                           | 3                          | (19) (c)                      | 33                  |
| Net Income (Loss) from Continuing Operations .....  | 65                           | 10                          | 6                          | (5)                           | 76                  |
| Total Assets (excluding Assets Held For Sale) ..... | 10,429                       | 653                         | 1,462                      | 1,442                         | 13,986              |
| Construction Expenditures .....                     | \$ 194                       | \$ —                        | \$ —                       | \$ 12                         | \$ 206              |

- (a) Total Assets in this column includes Pepco Holdings' goodwill balance of \$1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of \$(2) million for Operating Revenue, \$(1) million for Operating Expense, \$(13) million for Interest Income and \$(13) million for Interest Expense.
- (b) Includes depreciation and amortization of \$93 million, consisting of \$85 million for Power Delivery, \$5 million for Pepco Energy Services, \$1 million for Other Non-Regulated and \$2 million for Corporate and Other.
- (c) Includes \$8 million state tax benefit from changed apportionment arising from the restructuring of certain PHI subsidiaries.

## SEGMENT INFORMATION – continued

Six Months Ended June 30, 2011

|   | (millions of dollars) |                             |                            |                               |                     |
|---|-----------------------|-----------------------------|----------------------------|-------------------------------|---------------------|
|   | Power<br>Delivery     | Pepco<br>Energy<br>Services | Other<br>Non-<br>Regulated | Corporate<br>and<br>Other (a) | PHI<br>Consolidated |
| Operating Revenue .....                             | \$ 2,342              | \$ 681                      | \$ 28                      | \$ (8)                        | \$ 3,043            |
| Operating Expenses (b) .....                        | 2,088                 | 652                         | (36) (c)                   | (12)                          | 2,692               |
| Operating Income .....                              | 254                   | 29                          | 64                         | 4                             | 351                 |
| Interest Income .....                               | –                     | –                           | 2                          | (2)                           | –                   |
| Interest Expense .....                              | 102                   | 2                           | 7                          | 14                            | 125                 |
| Other Income (Expenses) .....                       | 16                    | 2                           | (1)                        | 2                             | 19                  |
| Preferred Stock Dividends .....                     | –                     | –                           | 1                          | (1)                           | –                   |
| Income Tax Expense (Benefit) (d) .....              | 49                    | 11                          | 32                         | (4)                           | 88                  |
| Net Income (Loss) from Continuing Operations .....  | 119                   | 18                          | 25 (c)                     | (5)                           | 157                 |
| Total Assets (excluding Assets Held For Sale) ..... | 10,803                | 615                         | 1,461                      | 1,354                         | 14,233              |
| Construction Expenditures .....                     | \$ 364                | \$ 7                        | \$ –                       | \$ 16                         | \$ 387              |

- (a) Total Assets in this column includes Pepco Holdings' goodwill balance of \$1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of \$(8) million for Operating Revenue, \$(6) million for Operating Expense, \$(10) million for Interest Income, \$(9) million for Interest Expense, and \$(1) million for Preferred Stock Dividends.
- (b) Includes depreciation and amortization of \$210 million, consisting of \$194 million for Power Delivery, \$9 million for Pepco Energy Services, \$1 million for Other Non-Regulated, and \$6 million for Corporate and Other.
- (c) Includes \$39 million pre-tax (\$3 million after-tax) gain from the early termination of finance leases held in trust.
- (d) Includes tax benefits of \$14 million for Power Delivery primarily associated with an interest benefit related to federal tax liabilities and a \$22 million reversal of previously recognized tax benefits for Other Non-Regulated associated with the early termination of finance leases held in trust.

Six Months Ended June 30, 2010

|   | (millions of dollars) |                             |                            |                               |                     |
|---|-----------------------|-----------------------------|----------------------------|-------------------------------|---------------------|
|   | Power<br>Delivery     | Pepco<br>Energy<br>Services | Other<br>Non-<br>Regulated | Corporate<br>and<br>Other (a) | PHI<br>Consolidated |
| Operating Revenue .....                             | \$ 2,411              | \$ 1,023                    | \$ 26                      | \$ (5)                        | \$ 3,455            |
| Operating Expenses (b) .....                        | 2,165                 | 975                         | 3                          | (12)                          | 3,131               |
| Operating Income .....                              | 246                   | 48                          | 23                         | 7                             | 324                 |
| Interest Income .....                               | 1                     | –                           | 2                          | (3)                           | –                   |
| Interest Expense .....                              | 104                   | 10                          | 7                          | 51                            | 172                 |
| Other Income (Expenses) .....                       | 9                     | 1                           | (1)                        | 1                             | 10                  |
| Preferred Stock Dividends .....                     | –                     | –                           | 1                          | (1)                           | –                   |
| Income Tax Expense (Benefit) .....                  | 67 (c)                | 16                          | 6                          | (31) (d)                      | 58                  |
| Net Income (Loss) from Continuing Operations .....  | 85                    | 23                          | 10                         | (14)                          | 104                 |
| Total Assets (excluding Assets Held For Sale) ..... | 10,429                | 653                         | 1,462                      | 1,442                         | 13,986              |
| Construction Expenditures .....                     | \$ 345                | \$ 1                        | \$ –                       | \$ 18                         | \$ 364              |

- (a) Total Assets in this column includes Pepco Holdings' goodwill balance of \$1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of \$(5) million for Operating Revenue, \$(5) million for Operating Expense, \$(25) million for Interest Income, \$(25) million for Interest Expense, and \$(1) million for Preferred Stock Dividends.
- (b) Includes depreciation and amortization of \$182 million, consisting of \$167 million for Power Delivery, \$9 million for Pepco Energy Services, \$1 million for Other Non-Regulated and \$5 million for Corporate and Other.
- (c) Includes \$8 million reversal of accrued interest income on uncertain and effectively settled state income tax positions.
- (d) Includes \$8 million state tax benefit from changed apportionment arising from the restructuring of certain PHI subsidiaries and the release of \$8 million of valuation allowances on deferred tax assets related to state net operating losses, partially offset by a charge of \$4 million to write off a deferred tax asset related to the Medicare Part D subsidy.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

|  | Three Months Ended<br>June 30,                      |           | Six Months Ended<br>June 30, |           |
|--|---|-----------|------------------------------|-----------|
|  | 2011  | 2010      | 2011                         | 2010      |
|  | <i>(millions of dollars, except per share data)</i> |           |                              |           |
| <b>Operating Revenue</b>   |   |           |                              |           |
| Power Delivery   | \$ 1,093  | \$ 1,149  | \$ 2,342                     | \$ 2,411  |
| Pepco Energy Services  | 308   | 476       | 681                          | 1,023     |
| Other  | 8   | 11        | 20                           | 21        |
| Total Operating Revenue  | 1,409   | 1,636     | 3,043                        | 3,455     |
| <b>Operating Expenses</b>  |   |           |                              |           |
| Fuel and purchased energy  | 809   | 1,077     | 1,804                        | 2,364     |
| Other services cost of sales   | 43  | 35        | 86                           | 60        |
| Other operation and maintenance  | 209   | 196       | 443                          | 410       |
| Depreciation and amortization  | 105   | 93        | 210                          | 182       |
| Other taxes  | 109   | 105       | 220                          | 197       |
| Gain on early termination of finance leases held in trust              | (39)  | —         | (39)                         | —         |
| Deferred electric service costs  | (29)  | (63)      | (32)                         | (82)      |
| Total Operating Expenses   | 1,207   | 1,443     | 2,692                        | 3,131     |
| <b>Operating Income</b>  | 202   | 193       | 351                          | 324       |
| <b>Other Income (Expenses)</b>   |   |           |                              |           |
| Interest expense   | (63)  | (89)      | (125)                        | (172)     |
| Loss from equity investments   | —   | —         | (1)                          | (1)       |
| Other income   | 10  | 5         | 20                           | 11        |
| Total Other Expenses   | (53)  | (84)      | (106)                        | (162)     |
| <b>Income from Continuing Operations Before Income Tax Expense</b>     | 149   | 109       | 245                          | 162       |
| <b>Income Tax Expense Related to Continuing Operations</b>             | 54  | 33        | 88                           | 58        |
| <b>Net Income from Continuing Operations</b>                           | 95  | 76        | 157                          | 104       |
| <b>(Loss) Income from Discontinued Operations, Net of Income Taxes</b> | (1)   | (130)     | 1                            | (122)     |
| <b>Net Income (Loss)</b>   | 94  | (54)      | 158                          | (18)      |
| <b>Retained Earnings at Beginning of Period</b>                        | 1,062   | 1,244     | 1,059                        | 1,268     |
| Dividends paid on common stock   | (61)  | (60)      | (122)                        | (120)     |
| <b>Retained Earnings at End of Period</b>                              | \$ 1,095  | \$ 1,130  | \$ 1,095                     | \$ 1,130  |
| <b>Basic and Diluted Share Information</b>                             |   |           |                              |           |
| Weighted average shares outstanding (millions)                         | 226   | 223       | 226                          | 223       |
| Earnings per share of common stock from Continuing Operations          | \$ 0.42   | \$ 0.34   | \$ 0.69                      | \$ 0.47   |
| (Loss) Earnings per share of common stock from Discontinued Operations | —   | (0.58)    | 0.01                         | (0.55)    |
| <b>Basic and diluted earnings (loss) per share</b>                     | \$ 0.42   | \$ (0.24) | \$ 0.70                      | \$ (0.08) |

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

|  | June 30,<br>2011             | December 31,<br>2010    |
|--|------------------------------|-------------------------|
|  | <i>(millions of dollars)</i> |                         |
| <b>ASSETS</b>  |                              |                         |
| <b>CURRENT ASSETS</b>  |                              |                         |
| Cash and cash equivalents .....  | \$ 58                        | \$ 20                   |
| Restricted cash equivalents .....  | 11                           | 11                      |
| Accounts receivable, less allowance for uncollectible accounts of \$52 million and<br>\$51 million, respectively ..... | 958                          | 1,027                   |
| Inventories .....  | 130                          | 126                     |
| Derivative assets .....  | 22                           | 45                      |
| Prepayments of income taxes .....  | 98                           | 276                     |
| Deferred income tax assets, net .....  | 89                           | 90                      |
| Prepaid expenses and other .....   | 128                          | 51                      |
| Conectiv Energy assets held for sale .....   | 4                            | 111                     |
| Total Current Assets .....   | <u>1,498</u>                 | <u>1,757</u>            |
| <b>INVESTMENTS AND OTHER ASSETS</b>  |                              |                         |
| Goodwill .....   | 1,407                        | 1,407                   |
| Regulatory assets .....  | 1,848                        | 1,915                   |
| Investment in finance leases held in trust .....   | 1,329                        | 1,423                   |
| Income taxes receivable .....  | 89                           | 114                     |
| Restricted cash equivalents .....  | 9                            | 5                       |
| Assets and accrued interest related to uncertain tax positions .....   | 9                            | 11                      |
| Other .....  | 170                          | 169                     |
| Conectiv Energy assets held for sale .....   | 1                            | 6                       |
| Total Investments and Other Assets .....   | <u>4,862</u>                 | <u>5,050</u>            |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   |                              |                         |
| Property, plant and equipment .....  | 12,431                       | 12,120                  |
| Accumulated depreciation .....   | <u>(4,553)</u>               | <u>(4,447)</u>          |
| Total Property, Plant and Equipment .....  | <u>7,878</u>                 | <u>7,673</u>            |
| <b>TOTAL ASSETS</b> .....  | <u><u>\$ 14,238</u></u>      | <u><u>\$ 14,480</u></u> |

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

|   | June 30,<br>2011                            | December 31,<br>2010 |
|---|---|----------------------|
|   | <i>(millions of dollars, except shares)</i> |                      |
| <b>LIABILITIES AND EQUITY</b>   |   |                      |
| <b>CURRENT LIABILITIES</b>  |   |                      |
| Short-term debt .....   | \$ 395                                      | \$ 534               |
| Current portion of long-term debt and project funding .....   | 111   | 75                   |
| Accounts payable and accrued liabilities .....  | 553   | 587                  |
| Capital lease obligations due within one year .....   | 8   | 8                    |
| Taxes accrued .....   | 143   | 96                   |
| Interest accrued .....  | 47  | 45                   |
| Liabilities and accrued interest related to uncertain tax positions .....   | 3   | 3                    |
| Derivative liabilities .....  | 47  | 66                   |
| Other .....   | 254   | 321                  |
| Liabilities associated with Conectiv Energy assets held for sale .....  | 3   | 62                   |
| Total Current Liabilities .....   | 1,564                                       | 1,797                |
| <b>DEFERRED CREDITS</b>   |   |                      |
| Regulatory liabilities .....  | 525   | 528                  |
| Deferred income taxes, net .....  | 2,749                                       | 2,714                |
| Investment tax credits .....  | 23  | 26                   |
| Pension benefit obligation .....  | 214   | 332                  |
| Other postretirement benefit obligations .....  | 412   | 429                  |
| Income taxes payable .....  | —   | 2                    |
| Liabilities and accrued interest related to uncertain tax positions .....   | 41  | 148                  |
| Derivative liabilities .....  | 9   | 21                   |
| Other .....   | 180   | 175                  |
| Liabilities associated with Conectiv Energy assets held for sale .....  | —   | 10                   |
| Total Deferred Credits .....  | 4,153                                       | 4,385                |
| <b>LONG-TERM LIABILITIES</b>  |   |                      |
| Long-term debt .....  | 3,795                                       | 3,629                |
| Transition bonds issued by ACE Funding .....  | 314   | 332                  |
| Long-term project funding .....   | 14  | 15                   |
| Capital lease obligations .....   | 82  | 86                   |
| Total Long-Term Liabilities .....   | 4,205                                       | 4,062                |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |   |                      |
| <b>EQUITY</b>   |   |                      |
| Common stock, \$.01 par value – authorized 400,000,000 shares, 226,314,924 and 225,082,252 shares outstanding, respectively ..... | 2   | 2                    |
| Premium on stock and other capital contributions .....  | 3,299                                       | 3,275                |
| Accumulated other comprehensive loss .....  | (80)  | (106)                |
| Retained earnings .....   | 1,095                                       | 1,059                |
| Total Shareholders' Equity .....  | 4,316                                       | 4,230                |
| Non-controlling interest .....  | —   | 6                    |
| Total Equity .....  | 4,316                                       | 4,236                |
| <b>TOTAL LIABILITIES AND EQUITY</b> .....   | <b>\$ 14,238</b>                            | <b>\$ 14,480</b>     |

## POWER DELIVERY SALES AND REVENUES

|   | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
|   | 2011                           | 2010          | 2011                         | 2010          |
| <b>Power Delivery Sales (Gigawatt Hours)</b>  |                                |               |                              |               |
| <b>Regulated T&amp;D Electric Sales</b>       |                                |               |                              |               |
| Residential                                   | 3,855                          | 3,773         | 8,630                        | 8,650         |
| Commercial and industrial                     | 7,913                          | 8,227         | 15,218                       | 15,428        |
| Other   | 55                             | 56            | 123                          | 124           |
| <b>Total Regulated T&amp;D Electric Sales</b> | <u>11,823</u>                  | <u>12,056</u> | <u>23,971</u>                | <u>24,202</u> |
| <b>Default Electricity Supply Sales</b>       |                                |               |                              |               |
| Residential                                   | 3,401                          | 3,586         | 7,699                        | 8,266         |
| Commercial and industrial                     | 1,495                          | 1,749         | 3,053                        | 3,504         |
| Other   | 18                             | 23            | 37                           | 48            |
| <b>Total Default Electricity Supply Sales</b> | <u>4,914</u>                   | <u>5,358</u>  | <u>10,789</u>                | <u>11,818</u> |

|  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|------------------------------|-----------------|
|  | 2011                           | 2010            | 2011                         | 2010            |
| <b>Power Delivery Electric Revenue (Millions of dollars)</b> |                                |                 |                              |                 |
| <b>Regulated T&amp;D Electric Revenue</b>                    |                                |                 |                              |                 |
| Residential  | \$ 154                         | \$ 149          | \$ 322                       | \$ 298          |
| Commercial and industrial                                    | 223                            | 224             | 425                          | 407             |
| Other  | 78                             | 76              | 160                          | 141             |
| <b>Total Regulated T&amp;D Electric Revenue</b>              | <u>\$ 455</u>                  | <u>\$ 449</u>   | <u>\$ 907</u>                | <u>\$ 846</u>   |
| <b>Default Electricity Supply Revenue</b>                    |                                |                 |                              |                 |
| Residential  | \$ 376                         | \$ 418          | \$ 845                       | \$ 939          |
| Commercial and industrial                                    | 165                            | 188             | 333                          | 367             |
| Other  | 41                             | 40              | 83                           | 95              |
| <b>Total Default Electricity Supply Revenue</b>              | <u>\$ 582</u>                  | <u>\$ 646</u>   | <u>\$ 1,261</u>              | <u>\$ 1,401</u> |
| <b>Other Electric Revenue</b>                                | \$ 17                          | \$ 18           | \$ 33                        | \$ 33           |
| <b>Total Electric Operating Revenue</b>                      | <u>\$ 1,054</u>                | <u>\$ 1,113</u> | <u>\$ 2,201</u>              | <u>\$ 2,280</u> |

|  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|------------------------------|-----------------|
|  | 2011                           | 2010            | 2011                         | 2010            |
| <b>Power Delivery Gas Sales and Revenue</b>        |                                |                 |                              |                 |
| <b>Regulated Gas Sales (Bcf)</b>                   |                                |                 |                              |                 |
| Residential  | 1                              | 1               | 5                            | 5               |
| Commercial and industrial                          | 1                              | 1               | 3                            | 3               |
| Transportation and other                           | 1                              | 1               | 4                            | 3               |
| <b>Total Regulated Gas Sales</b>                   | <u>3</u>                       | <u>3</u>        | <u>12</u>                    | <u>11</u>       |
| <b>Regulated Gas Revenue (Millions of dollars)</b> |                                |                 |                              |                 |
| Residential  | \$ 16                          | \$ 14           | \$ 73                        | \$ 69           |
| Commercial and industrial                          | 8                              | 8               | 39                           | 38              |
| Transportation and other                           | 2                              | 2               | 5                            | 4               |
| <b>Total Regulated Gas Revenue</b>                 | <u>\$ 26</u>                   | <u>\$ 24</u>    | <u>\$ 117</u>                | <u>\$ 111</u>   |
| <b>Other Gas Revenue</b>                           | <u>\$ 13</u>                   | <u>\$ 12</u>    | <u>\$ 24</u>                 | <u>\$ 20</u>    |
| <b>Total Gas Operating Revenue</b>                 | \$ 39                          | \$ 36           | \$ 141                       | \$ 131          |
| <b>Total Power Delivery Operating Revenue</b>      | <u>\$ 1,093</u>                | <u>\$ 1,149</u> | <u>\$ 2,342</u>              | <u>\$ 2,411</u> |

## POWER DELIVERY – CUSTOMERS

|  | June 30, 2011 | June 30, 2010 |
|--|---------------|---------------|
| <b>Regulated T&amp;D Electric Customers (in thousands)</b> |               |               |
| Residential  | 1,635         | 1,628         |
| Commercial and industrial                                  | 198           | 198           |
| Other  | 2             | 2             |
| <b>Total Regulated T&amp;D Electric Customers</b>          | <b>1,835</b>  | <b>1,828</b>  |

### Regulated Gas Customers (in thousands)

|                                      |            |            |
|--------------------------------------|------------|------------|
| Residential                          | 114        | 113        |
| Commercial and industrial            | 9          | 9          |
| Transportation and other             | -          | -          |
| <b>Total Regulated Gas Customers</b> | <b>123</b> | <b>122</b> |

## WEATHER DATA - CONSOLIDATED ELECTRIC SERVICE TERRITORY

|                                       | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |       |
|---------------------------------------|--------------------------------|------|------------------------------|-------|
|                                       | 2011                           | 2010 | 2011                         | 2010  |
| Heating Degree Days                   | 324                            | 286  | 2,679                        | 2,593 |
| 20 Year Average                       | 437                            | 433  | 2,739                        | 2,698 |
| Percentage Difference from Average    | -26%                           | -34% | -2%                          | -4%   |
| Percentage Difference from Prior Year | 13%                            |      | 3%                           |       |
| Cooling Degree Days                   | 522                            | 611  | 522                          | 611   |
| 20 Year Average                       | 372                            | 351  | 374                          | 353   |
| Percentage Difference from Average    | 40%                            | 74%  | 40%                          | 73%   |
| Percentage Difference from Prior Year | -15%                           |      | -15%                         |       |

## PEPCO ENERGY SERVICES

### Operating Summary

(Millions of dollars)

|  | Three Months Ended<br>June 30, |                     | Six Months Ended<br>June 30, |                     |
|--|--------------------------------|---------------------|------------------------------|---------------------|
|  | 2011                           | 2010                | 2011                         | 2010                |
| Retail Electric Sales (GWh)                | 1,865 <sup>(3)</sup>           | 3,116               | 3,874 <sup>(3)</sup>         | 6,417               |
| <b>Retail Energy Supply <sup>(1)</sup></b> |                                |                     |                              |                     |
| Operating Revenue <sup>(2)</sup>           | \$ 245                         | \$ 442              | \$ 558                       | \$ 951              |
| Cost of Goods Sold <sup>(2)</sup>          | 227                            | 406                 | 516                          | 878                 |
| Gross Margin                               | <u>18 <sup>(4)</sup></u>       | <u>36</u>           | <u>42 <sup>(4)</sup></u>     | <u>73</u>           |
| Operation and Maintenance Expenses         | 9                              | 12                  | 19                           | 23                  |
| Depreciation                               | <u>3</u>                       | <u>3</u>            | <u>5</u>                     | <u>6</u>            |
| Operating Expense                          | 12                             | 15                  | 24                           | 29                  |
| <b>Operating Income</b>                    | <b>6</b>                       | <b>21</b>           | <b>18</b>                    | <b>44</b>           |
| <b>Energy Services</b>                     |                                |                     |                              |                     |
| Operating Revenue <sup>(2)</sup>           | \$ 66                          | \$ 39               | \$ 131                       | \$ 84               |
| Cost of Goods Sold <sup>(2)</sup>          | 45                             | 26                  | 92                           | 57                  |
| Gross Margin                               | <u>21 <sup>(5)</sup></u>       | <u>13</u>           | <u>39 <sup>(5)</sup></u>     | <u>27</u>           |
| Operation and Maintenance Expenses         | 11 <sup>(6)</sup>              | 8                   | 21 <sup>(6)</sup>            | 16                  |
| Depreciation                               | <u>2</u>                       | <u>2</u>            | <u>4</u>                     | <u>4</u>            |
| Operating Expense                          | 13                             | 10                  | 25                           | 20                  |
| <b>Operating Income</b>                    | <b>8</b>                       | <b>3</b>            | <b>14</b>                    | <b>7</b>            |
| Unallocated Overhead Cost                  | 1                              | 1                   | 3                            | 3                   |
| <b>Operating Income</b>                    | <b>\$ <u>13</u></b>            | <b>\$ <u>23</u></b> | <b>\$ <u>29</u></b>          | <b>\$ <u>48</u></b> |

Notes:

- (1) Includes power generation.
- (2) Certain transactions among Pepco Energy Services businesses are not eliminated.
- (3) Retail electric sales decreased due to the continuing expiration of existing contracts in connection with the wind down of the retail energy supply business.
- (4) Retail Energy Supply gross margins decreased due to the continuing expiration of existing retail supply contracts.
- (5) Energy Services gross margins increased due to increased activity in the energy performance and high voltage construction businesses.
- (6) Operation and maintenance expenses increased due to the maintenance of various distribution systems for the thermal services business, and higher personnel costs due to growth of the energy services business.