PECO ENERGY CO
Form DEF 14C
April 29, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14C

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934 (Amendment No.)

Check the appropriate box:

o Preliminary Information Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

x Definitive Information Statement

PECO Energy Company

(Name of Registrant As Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required
o Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11(1) Title of each class of securities to which transaction applies:

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Notice of 2004

Annual Meeting of Shareholders and Information Statement

April 29, 2004

To the Shareholders of PECO Energy Company:

We will hold the annual meeting of shareholders of PECO Energy Company on Thursday, May 27, 2004 at 3:30PM (Central Daylight Savings Time) at the offices of Exelon Corporation, 10 South Dearborn Street, Chicago, Illinois 60603.

The purpose of the annual meeting is to consider and take action on the following:

1. The election of two class III directors: Denis P. O Brien and Robert S. Shapard.
2. Any other business that properly comes before the annual meeting.

Shareholders of record as of the close of business on May 12, 2004 can vote at the annual meeting.

Because of security requirements, we must know in advance if you plan to attend the meeting. Please write to Mr. Tom Boin, Exelon Corporate Secretary s Office, P.O. Box 805398, Chicago, Illinois 60680-5398 for admission tickets. You will also be required to show a photo ID to enter the meeting. Please note that cameras and other recording devices will not be allowed in the meeting, and that all bags and parcels will be subject to search.

Very truly yours,

/s/ Katherine K. Combs

Katherine K. Combs

Secretary

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INFORMATION STATEMENT

**WE ARE NOT ASKING FOR A PROXY
AND YOU ARE NOT REQUESTED TO SEND US A PROXY**

This Information Statement is being sent to you in connection with the annual meeting of shareholders of PECO Energy Company (PECO or the Company) to be held at the offices of Exelon Corporation on Thursday, May 27, 2004 at 3:30PM (Central Daylight Savings Time). An admission ticket and photo ID will be required to for admission to the meeting.

On October 20, 2000, (the Merger Date), Unicom Corporation and PECO Energy Company merged to become Exelon Corporation (Exelon). Pursuant to this merger, PECO became a subsidiary of Exelon. As of December 31, 2003, PECO had outstanding 170,478,507 shares of Common Stock, without par value, all of which are owned by Exelon, and 874,720 shares of Cumulative Preferred Stock, without par value, comprised of four series (the $4.68 Series, the $4.40 Series, the $4.30 Series, and the $3.80 Series, collectively the Preferred Stock . The PECO Common Stock and Preferred Stock vote together as a single class on the election of directors. Exelon intends to vote its shares of common stock FOR the election of the nominees for director named under the Election of Directors below. Consequently, the election of these directors is expected to be approved.

This Information Statement and the combined Annual Report on Form 10-K for the year ended December 31, 2003 for Exelon Corporation, Commonwealth Edison Company, PECO Energy Company, and Exelon Generation Company, LLC are being mailed to shareholders on or about May 14, 2004.

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Directors

Election of Directors

The board of directors of PECO consists of five members, divided into three classes. The three-year terms of each class are staggered so that the term of one class expires at each annual meeting. The term of the Class I director will expire at the 2006 annual meeting, the terms of the Class II directors will expire at the 2005 annual meeting, and the term of the Class III directors will expire at the 2004 annual meeting. At each annual meeting after 2003, directors will be elected to succeed those whose terms then expire, and each person so elected will serve for a three-year term.

The board of directors nominates the persons listed below, both of whom are currently members of the board, for election as director to serve 3 year terms expiring in 2007. Except as otherwise indicated, each director has engaged in his or her principal occupation for at least the past five years.

Denis P. O Brien

Mr. O Brien, age 43. Director since June 30, 2003. President of PECO since April 2003. Previously Executive Vice President, Vice President of Operations, Director of Operations for the BucksMont Region and Director of Transmission and Substations.

Robert S. Shapard

Mr. Shapard, age 48. Director since May 29, 2003. Executive Vice President and Chief Financial Officer of Exelon Corporation since October 21, 2002. Previously. executive vice president and CFO of Covanta Energy Corporation during 2002. For 2000 through 2001, executive vice president and CFO of Ultramar Diamond Shamrock. Prior to that, chief executive officer of TXU Australia, LTD, a wholly owned subsidiary of TXU Corporation.

The board of directors recommends a vote FOR these directors.

Continuing Directors

John W. Rowe

Mr. Rowe, age 58. Class I director with term expiring in 2006. Director since October 20, 2000. Chairman and CEO of Exelon Corporation since April 23, 2002; President and Co-CEO from October 20, 2000 until April 22, 2002. Former Chairman, President and CEO of Unicom Corporation and Commonwealth Edison Company. Former President and CEO of the New England Electric System. Other directorships: UnumProvident Corporation, Sunoco Inc. and The Northern Trust.

Oliver D. Kingsley, Jr.

Mr. Kingsley, age 61. Class II director with term expiring in 2005. Director since June 30, 2003. President and Chief Operating Officer of Exelon Corporation since April 2003. Senior Executive Vice President of Exelon from May 2002 through April 2003. Executive Vice President of Exelon from October 2000 through May 2002. Executive Vice President of Unicom Corporation and ComEd; Chief Nuclear Officer, Nuclear Generation Group of ComEd from 1998 through October 2000.

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John L. Skolds

Mr. Skolds, age 52. Class II director with term expiring in 2005. Director since March 15, 2004. Executive Vice President of Exelon Corporation since February 1, 2004. Senior Vice President of Exelon and Exelon Generation Company, LLC and Chief Nuclear Officer from October 2000 through February 2004. Vice President of Unicom Corporation and ComEd, Chief Operating Officer, Nuclear Generation Group of ComEd from August 2000 through October 2000. President and Chief Operating Officer of South Carolina Electric and Gas from 1995 through August 2000.

PECO Board Facts

Board Compensation

The board of directors of PECO is comprised solely of employees of PECO, Exelon Corporation, or its subsidiaries. These individuals receive no additional compensation for serving as directors of PECO.

Attendance at Meetings

During 2003, PECO s board of directors did not hold any meetings. Corporate actions were taken by unanimous written consent of the directors.

Board Committees

The PECO board has no standing committees. The description and membership of the Exelon board committees relevant to PECO is included below in the section titled Exelon Board Committees. Unless specifically noted, all references to the Company within this section refer to Exelon Corporation.

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Independent Public Accountants

PECO is an indirect subsidiary of Exelon and does not have a separate audit committee. Instead that function is fulfilled for PECO by the Exelon Audit Committee. In July 2002, the Exelon Audit Committee adopted a policy for pre-approval of services to be performed by the independent accountants. The committee pre-approves annual budgets for audit, audit-related and tax compliance and planning services. The services that the committee will consider includes services that do not impair the accountant s independence and add value to the audit, including audit services such as attest services and scope changes in the audit of the financial statements, audit-related services such as accounting advisory services related to proposed transactions and new accounting pronouncements, the issuance of comfort letters and consents in relations to financings, the provision of attest services in relation to regulatory filings and contractual obligations, and tax compliance and planning services. With respect to non-budgeted services in amounts less than $500,000, the committee delegated authority to the committee s chairman to pre-approve such services. All other services must be pre-approved by the committee. The committee receives quarterly reports on all fees paid to the independent accountants. None of the services provided by the independent accountants was provided pursuant to the de minimus exception to the pre-approval requirements contained in the SEC s rules.

The following table presents fees for the professional audit service rendered by PricewaterhouseCoopers LLP for the audit of PECO s annual financial statements for the years ended December 31, 2003 and 2002, and the fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods. These fees include an allocation of amounts billed directly to Exelon Corporation. Certain amounts for 2002 have been reclassified to conform to 2003 presentation.

	Year Ended December 31,	
	2003	**2002**
Audit fees	479,000	374,000
Audit related fees	189,000	43,000
Tax fees	269,000	449,000
All other fees	0	67,000

Audit related fees consist of assurance and related services that are reasonably related to the performance of the audit or review of PECO s financial statements. This category includes fees for regulatory work, depreciation studies and internal control projects. Tax fees consist of the aggregate fees billed for professional services rendered by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning. All other fees reflect work performed in connection with PECO s business continuity planning.

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Beneficial Ownership

As of December 31, 2003, PECO had outstanding 170,478,507 shares of common stock, all of which are owned by Exelon, and 874,720 shares of Preferred Stock. No other person is known to PECO to be the beneficial owner of more than 5% of the combined voting power of the PECO Common Stock and the Preferred Stock. None of the nominees for director or any of the executive officers of PECO own any Preferred Stock.

The following table shows the ownership of Exelon Corporation common stock as of December 31, 2003 by (1) any person or entity that has publicly disclosed ownership of more than 5% of Exelon s outstanding stock, (2) each director, (3) each executive officer named in the Summary Compensation Table, and (4) all directors and executive officers as a group.

Beneficial Ownership Table

Name		Beneficially owned shares See Note (a)	Shares that may be acquired See Note (b)	Deferred or phantom shares See Note (c)	Total Shares
Wellington Management Company, LLP (See Note (d))		22,024,775			22,024,775
Barclays Global Investors, NA (See Note (e))		20,987,379			20,987,379
Edward A. Brennan	Director	3,984		8,541	12,525
M. Walter D Alessio	Director	6,173		13,698	19,871
Nicholas DeBenedictis (See Note (f))	Director			1,615	1,615
Bruce DeMars	Director	4,421		3,576	7,997
G. Fred DiBona, Jr.	Director	1,450		6,699	8,149
Nelson A. Diaz (See Note (f))	Director				
Sue L. Gin	Director	12,616		6,388	19,004
Rosemarie B. Greco	Director	1,000		7,848	8,848
Edgar D. Jannotta	Director	6,620		11,817	18,437
John M. Palms, Ph.D.	Director	1,258		11,143	12,401
John W. Rogers, Jr.	Director	3,687		6,200	9,887
Ronald Rubin	Director	7,363		13,958	21,321
Richard L. Thomas	Director	10,607		10,264	20,871
Michael B. Bemis (See Note (h))	Director & Officer	6,773		130	6,903
Pamela B. Strobel (See Note (i))	Director & Officer	186,828	47,000	25,439	259,267
John W. Rowe	Director & Officer	1,091,949	197,917	106,497	1,396,363
Oliver D. Kingsley, Jr.	Director & Officer	371,529	71,667	70,043	513,239
Robert S. Shapard	Director & Officer	32,094	40,333	895	73,322
Denis P. O Brien	Officer	56,180	15,750	437	72,367
Kenneth G. Lawrence (See Note (j))	Officer	178,601		2,557	181,158
Total Directors & Officers as a Group (22 people) (See Note (g))		2,079,888	393,517	317,015	2,790,420

Notes (a) through (g) are on Page 6.

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Notes to Beneficial Ownership Table

(a) The shares listed as beneficially owned shares include non-qualified stock options that are exercisable within 60 days after December 31, 2003.

(b) The shares listed as Shares that may be acquired include shares of Exelon Corporation common stock that can be acquired upon the exercise of non-qualified stock options granted under Exelon Corporation plans that are not exercisable within 60 days after December 31, 2003.

(c) The shares listed as deferred or phantom shares include shares not considered to be beneficially owned under rules of the Securities and Exchange Commission because they are held in various Exelon Corporation plans.

(d) In a Form 13G filed with the SEC on February 12, 2004, an investment adviser, Wellington Management Company, LLP, 75 State Street, Boston, MA 02109, disclosed that as of December 31, 2003, it was the beneficial owner of 22,024,775 Exelon shares, or approximately 6.74% of Exelon s issued and outstanding common shares. Wellington disclosed that it shared voting power as to 12,479,889 shares and shared dispositive power as to 22,024,775 shares.

(e) In a Form 13G filed with the SEC on February 17, 2004, a bank, Barclays Global Investors, NA, 45 Fremont Street, San Francisco, CA 94105, and its affiliates, including banks, investment advisors, and broker/dealers, disclosed that as of December 31, 2003, they were the beneficial owners of an aggregate of 20,987,379 Exelon shares, or approximately 6.41% of Exelon s issued and outstanding shares.

(f) Mr. DeBenedictis was elected to the board on April 23, 2002 and Mr. Diaz was elected on January 27, 2004. Directors are required to own at least 3,000 shares of Exelon Corporation common stock or stock units within three years after their election to the board.

(g) Beneficial ownership of directors and executive officers as a group represents less than 1% of the outstanding shares of Exelon Corporation common stock.

(h) Mr. Bemis resigned as a director and officer on January 31, 2004.

(i) Ms. Strobel was CEO through April 30, 2003 and she resigned as a director on June 29, 2003.

(j) Mr. Lawrence retired as a director and officer on October 31, 2003.

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Exelon Board of Directors

The Board of Directors

Met 10 times in 2003

The board of directors of Exelon Corporation consists of 14 members, divided into three classes. The three-year terms of each class are staggered so that the term of one class expires at each annual meeting.

Of the 14 directors, all but one are considered independent as defined by the New York Stock Exchange Listing Standards and standards adopted by the board of directors. The board of directors has adopted Corporate Governance Principles that, among other things, establish standards for determining whether a director is independent. Under the Corporate Governance Principles, an independent director is one who has no direct or indirect material relationship with Exelon Corporation. The Corporate Governance Principles employ the categorical independence and materiality standards set forth in rules of the New York Stock Exchange. In addition, for relationships not covered by specific New York Stock Exchange rules adopted by the company, the Corporate Governance Principles state that a relationship will be material and the director will not to be independent if the aggregate payments made or received by Exelon Corporation in the most recent year exceed the greater of $200,000 or 5% of the recipient s consolidated gross revenues reported in its last completed fiscal year. Because John W. Rowe is employed as the Chief Executive Officer, he is not considered independent under the NYSE standards. Considering these materiality and independence criteria and all other factors the board of directors considered relevant to its assessment of the independence of directors, the board of directors has determined that all directors, other than Mr. Rowe, are independent . In addition, all members of the audit, compensation, and corporate governance committees are independent directors.

The Company s Corporate Governance Principles are available on the Exelon Corporation web site at www.exeloncorp.com. From the home page, select the Investor Relations tab.

The board of directors approved the charter for each committee. Each committee reviews its own charter and conducts an assessment of its own performance. The corporate governance committee reviews each of the individual committee assessments, assesses the performance of the board as a whole, and presents its findings to the full board. The charter for each committee is available on the Exelon Corporation web site at www.exeloncorp.com. From the home page, select the Investor Relations tab. The audit committee charter is also attached as Appendix B.

During 2003 each director attended at least 84% of the meetings of the board and the meetings of the committees of which he or she was a member. Although the company does not have a formal policy regarding director attendance at the annual meeting, directors are expected to attend the annual meeting. All directors attended the annual meeting in 2003.

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Exelon Board Committees

Audit

John M. Palms, Ph.D., Chair
Nicholas DeBenedictis
Sue L. Gin
Richard L. Thomas

Met 10 times in 2003

The audit committee reviews financial reporting and accounting practices and internal control functions. The committee also reviews and makes recommendations to the full board regarding risk management policy, officers and directors expenses, compliance with appropriate policies and the company s code of business conduct, and legal and regulatory compliance matters. The committee selects the independent accountants and approves the scope of the annual audit by the independent accountants and internal auditors. The committee has sole authority to retain and determine the compensation of the independent accountants. The committee meets outside the presence of management for portions of its meetings with both the independent accountants and the internal auditors.

All members of the audit committee are independent directors, are financially literate, have accounting or related financial management expertise, and are audit committee financial experts under applicable SEC rules. Each of the members of the audit committee obtained these attributes through the business experience and directorships described on pages 13 and 15 of the Exelon Corporation proxy statement for the 2004 annual meeting, and through service on audit committees of various public companies including the audit committees of Exelon s predecessor companies.

The audit committee members are not employees of Exelon and are not accountants or auditors by profession. Accordingly, the audit committee must rely, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles and on the representations of the independent accountants included in their report on Exelon s financial statements. The audit committee s oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee s considerations and discussions with management and the independent accountants do not assure that Exelon s financial statements are presented in accordance with generally accepted accounting principles, that the audit of Exelon s financial statements has been carried out in accordance with generally accepted auditing standards or that Exelon s independent accountants are in fact independent.

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Compensation

Edward A. Brennan, Chair
Rosemarie B. Greco
Ronald Rubin
Richard L. Thomas

Met 6 times in 2003

The compensation committee reviews executive compensation and administers and oversees the employee benefit plans and programs. The committee makes recommendations to the independent directors for approval of compensation for the positions of chairman and chief executive officer, and to the full board for the positions of president and executive vice presidents. The committee also oversees executive and management development programs. When appropriate, the committee uses the services of an independent compensation consultant who reports directly to the committee. All members of the committee are independent directors.

Corporate Governance

M. Walter D Alessio, Chair
G. Fred DiBona, Jr.
Edgar D. Jannotta
John W. Rogers, Jr.
Richard L. Thomas

Met 8 times in 2003

The corporate governance committee reviews and makes recommendations on board and committee organization, membership, functions, compensation and effectiveness. The committee monitors corporate governance trends and makes recommendations to the board regarding the Corporate Governance Principles. The committee coordinates the annual evaluations of the performance of each committee and the board as a whole. The committee also evaluates the performance of individual directors as the term of each class expires and the members are considered for re-election. The committee performs the functions of a nominating committee and, among other things, coordinates the nominating process for directors. All members of the committee are independent directors.

The committee believes that a director must possess many different qualities and skills in order to be an effective director. The Corporate Governance Principles adopted by the board of directors list the following qualifications for membership on the board:

1. Highest personal and professional ethics, integrity and values;

2. An inquiring and independent mind;

3. Practical wisdom and mature judgment;

4. Broad training and experience at the policy making level in business, government, education or technology;

5. Expertise useful to the company and complementary to the background and experience of other board members;

6. Willingness to devote the required amount of time to the duties and responsibilities of board membership;

7. A commitment to serve over a period of years to develop knowledge about the company; and

8. Involvement only in activities or interests that do not create a conflict with responsibilities to the company and its shareholders.

When the committee finds it necessary to identify candidates for election to the board, the committee normally attempts first to identify qualified candidates through personal knowledge and contacts of the committee and the other directors. The committee sometimes uses search firms to help identify candidates, although the committee did not use a search firm during 2003.

The committee also considers candidates recommended by shareholders. A shareholder who wishes to recommend a candidate for nomination as director should write to Mr. M. Walter D Alessio, Chairman of the Corporate Governance Committee, c/o Katherine K. Combs, Vice President, Corporate Secretary, and Deputy General Counsel Exelon Corporation, 10 South Dearborn Street, 37th Floor, P.O. Box 805398, Chicago, Illinois 60680-5398.

The committee uses the same processes and standards for evaluating all candidates identified as possible nominees for director. The nominees for election as Class I directors are currently serving as directors. Their re-election to the board was recommended by the committee.

The committee coordinates the board s role in establishing performance criteria for the CEO and evaluating the CEO s performance, and also monitors succession planning and executive leadership development. The committee also oversees the directors orientation and continuing education program and the company s efforts to promote diversity among its directors, officers, employees and contractors. The committee utilizes an independent compensation consultant to assist it in evaluating directors compensation. The committee acts on behalf of the full board when the board is not in session.

The committee also annually reviews the performance of the management and investment of assets in the company s service annuity fund, nuclear decommissioning trust funds and post-retirement funds.

Energy Delivery Oversight

Rosemarie B. Greco, Chair
Nicholas DeBenedictis
Bruce DeMars
John W. Rogers, Jr.

Met 6 times in 2003

The energy delivery oversight committee advises and assists the full board in fulfilling its responsibilities to oversee the safe, reliable and cost effective delivery of energy and related differentiated products and services to consumers. The committee reviews the regulatory and public policy strategies and practices of the Energy Delivery business and its relations with regulators, public officials, consumers and other stakeholders. The committee also reviews the budget and business plans of Exelon Energy Delivery Company and monitors its operating and financial performance.

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Report of the Exelon Compensation Committee

What is our compensation philosophy?

Exelon s executive compensation program is designed to motivate and reward senior management for achieving high levels of business performance and outstanding financial results. In 2003, Exelon continued to reward executives on the basis of compensation that is benchmarked and aligned with the best practices of high performing energy services companies and general industry firms. This philosophy reflects a commitment to attracting and retaining key executives to ensure continued focus on achieving long-term growth in shareholder value.

The compensation committee (the Committee), composed entirely of independent directors, is responsible for administering executive compensation programs, policies and practices. Exelon s executive compensation program comprises three elements:

Base salary;

Annual incentives; and

Long-term incentives.

These components balance short-term and longer range business objectives and align executive financial rewards with those of Exelon s shareholders.

What factors do we consider in determining overall compensation?

The Committee commissioned a study of compensation programs in the fall of 2003. This analysis was conducted by a leading external management compensation consulting firm and included an assessment of business plans, strategic goals, peer companies and competitive compensation levels benchmarked with the external market.

The study results indicated that the mix of compensation components (i.e., salary, annual and long-term incentives) is effectively aligned with the best practices of the external market. Exelon s pay-for-performance philosophy places an emphasis on pay-at-risk. Pay will exceed market levels when excellent performance is achieved. Failure to achieve target goals will result in below market pay.

How do we determine base salary?

Base salaries for Exelon s executives are determined based on individual performance with reference to the salaries of executives in similar positions in general industry, and where appropriate, the energy services sector. Executive salaries are targeted to approximate the median (50th percentile) salary levels of the companies identified and surveyed.

Mr. Rowe s 2003 Base Salary: The independent directors of the board, on the recommendations of the Committee and the corporate governance committee, determined Mr. Rowe s base salary for serving as the chief executive officer by considering:

A review of benchmark levels of base pay, which were provided by external consulting firms, and

performance achieved against financial and operational goals, and

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the implementation of Exelon s strategic plans.

Mr. Rowe s annualized base salary was increased to $1,200,000 effective March 1, 2003.

Other Named Executives 2003 Base Salaries: The base salaries of the other named executive officers listed in the Summary Compensation Table were determined based upon individual performance and by considering comparable compensation data from the industry surveys referred to above.

How are 2003 annual incentives determined?

Exelon establishes corporate and business unit measures each year which are based on factors necessary to achieve strategic business objectives. These measures are incorporated into financial, customer and internal indicators designed to measure corporate and business unit performance.

The annual incentive awards paid to Exelon executives for 2003 were determined in accordance with the Exelon incentive programs. Annual incentives were paid to executives based on a combination of the achievement of pre-determined corporate and business unit- specific measures and individual performance. The incentive plan was designed to tie executive annual incentives to the achievement of key goals of Exelon, as applicable, and the executive s particular business unit.

For 2003, Mr. Rowe s annual incentive payout was determined using the Earnings Per Share corporate performance measure.

2003 Annual Incentive Award: In evaluating Mr. Rowe s performance, the directors considered the overall performance of Exelon against the measures that were achieved under the applicable incentive program. The board also considered the leadership demonstrated in positioning Exelon for the future.

Exelon decided to take select one-time charges (primarily non-cash) in 2003, which could have affected payouts under the company s Annual Incentive Program. These events significantly reduced Exelon s earnings recorded under Generally Accepted Accounting Principles (GAAP).

In reviewing the issue, the Committee agreed that basing the incentive award on GAAP earnings would be inconsistent with the company s strong operating performance and Exelon s robust stock price throughout the year. However, since Earnings Per Share is such an integral component of the award, the Committee concluded that reward should be adjusted to reflect the adverse effects of these significant events.

The Committee, after considering these issues, permitted the exclusion of the one-time events described above from the earnings calculation used for the 2003 incentive awards based upon Exelon s continued strong operating and earnings performance for the year.

The Committee also accepted management s recommendation to impose some accountability for these one-time events. Award payouts for all participants were reduced by 20% to 30% percent. Mr. Rowe, other named executives and senior executives absorbed a 30% percent reduction.

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Other Named Executive Officers   2003 Annual Incentives: The final 2003 incentive plan payouts as approved by the Committee for the other named executive officers listed in the Summary Compensation Table were determined in accordance with the applicable incentive programs and each individual   s performance.

How is compensation used to focus management in long-term value creation?

Exelon established a long-term incentive program that includes a combination of non-qualified stock options (60%) and performance shares (40%). Exelon granted long-term incentives in the form of stock options to key management employees, including the named executive officers, effective January 27, 2003. The purpose of stock options is to align compensation directly to increases in shareholder value. Individuals receiving stock options are provided the right to buy a fixed number of shares of Exelon common stock at the closing price of such stock on the grant date. Options typically vest over a four-year period and have a term of ten years.

Stock Option Awards: Mr. Rowe received a grant of 175,000 non-qualified stock options on January 27, 2003. Other senior executives and other executives received grants on January 27, 2003 to motivate executives to achieve stock appreciation in support of shareholder value.

Exelon Performance Share Awards: Long-term incentives were awarded in the form of restricted stock to retain key executives engaged in positioning Exelon Corporation. Awards were determined based upon the successful completion of strategic goals designed to achieve long-term business success and increased shareholder value. Depending on Exelon Corporation   s performance each year, the Committee could award performance shares with prohibitions on sale or transfer until the restrictions lapse.

Performance shares are paid in Exelon stock: 33% vest upon award date, 33% after the second year and 34% after the third year.

The 2003 Long Term Performance Share Program was based on Total Shareholder Return (TSR) comparing Exelon to companies listed on the Dow Jones Utility Index and the Standard and Poor   s 500 Index using a three-year TSR compounded monthly. The other component in determining the award was an assessment by the Committee on strategic goals emphasizing growth in cash and earnings.

The board of directors approved Mr. Rowe   s Performance Share Award of 42,000 shares. All other executives named also received Performance Share Awards.

Can we deduct executive compensation under section 162(m) of the Internal Revenue Code?

Under Section 162(m) of the Internal Revenue Code (Code   ), executive compensation in excess of $1 million paid to a chief executive officer or other person among the four highest compensated officers is generally not deductible for purposes of corporate federal income taxes. However,   qualified performance- based compensation   which is paid pursuant to a plan meeting certain requirements of the Code and applicable regulations remains deductible. The Committee intends to continue reliance on performance-based compensation programs, consistent with sound

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executive compensation policy. Such programs will be designed to fulfill, in the best possible manner, future corporate business objectives. The Committee s policy has been to seek to cause executive incentive compensation to qualify as performance-based in order to preserve its deductibility for federal income tax purposes to the extent possible without sacrificing flexibility in designing appropriate compensation programs. However, in order to provide executives with appropriate incentives, the Committee may also determine, in light of all applicable circumstances, that it would be in the best interests of Exelon for awards to be paid under certain of its incentive compensation programs or otherwise in a manner that would not satisfy the requirements to qualify as performance-based compensation under Code Section 162(m).

For 2003, the Committee approved an annual incentive award plan design that provided for the final awards paid to named executive officers to be adjusted based on their individual contribution to the company s financial and operational results. In approving this approach, the Committee concluded that the benefits of exercising discretion in assessing individual performance outweighed the impact of these incentive payments not qualifying as performance-based compensation under Code Section 162(m).

The portion of compensation that does not qualify under Code Section 162(m) and is not deferred, will not be deductible by Exelon for purposes of corporate federal income taxes. Mr. Rowe has elected to defer 100% of his long-term incentive award payable in 2004.

Exelon is seeking at the 2004 annual meeting approval from the shareholders of a qualified performance-based annual incentive program for 2004 for named executive officers and select senior management that will meet the requirements under Code Section 162(m) and preserve deductibility of the incentive program for corporate federal income taxes purposes.

Exelon Compensation Committee

Edward A. Brennan, Chair
Rosemarie B. Greco
Ronald Rubin
Richard L. Thomas

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Stock Performance Graph

Comparison of Five-Year Cumulative Return

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of $100 in PECO Energy Company common stock that was exchanged for Exelon Corporation common stock in the share exchange on October 20, 2000 as compared with the S&P 500 Stock Index and the S&P Utility Average for the period 1999 through 2003.

This performance chart assumes:

$100 invested on December 31, 1998 in PECO Energy Company common stock in the S&P 500 Stock Index and in the S&P Utility Index.

All dividends are reinvested.

PECO Energy common stock exchanged for Exelon Corporation common stock on a 1:1 basis on October 20, 2000.

		Value of Investment at December 31,					
		1998	1999	2000	2001	2002	2003
Exelon Corporation	————	$ 100.00	85.35	175.81	123.94	141.35	183.55
S&P 500		$ 100.00	121.02	109.99	96.98	75.60	97.24
S&P Utilities	- - - - - - -	$ 100.00	90.91	142.73	99.45	69.67	87.78

Executive Compensation

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other (See Note 1.) ($)	Restricted Stock Award (See Note 2.) ($)	Number of Options (#)	Stock Based ($)	All Other Compen-sation ($)
Michael B. Bemis (See Note 3.)	2003	414,567	292,346	177,414	433,888			1,564,636 (See Note 6)
Former President Exelon Energy Delivery, and CEO,	2002	121,154	121,347					6,058
PECO	2001							
Pamela B. Strobel (See Note 4.)	2003	500,673	403,374		634,530	36,000		25,034
Executive Vice	2002	474,923	470,400		520,905	60,000		23,746
President, Exelon Corporation, Former CEO, PECO	2001	450,000	500,500		378,187			23,605
John W. Rowe	2003	1,185,289	1,400,000	342,341	2,733,360	175,000		59,264
Chairman & CEO,	2002	1,104,000	1,550,000	185,121	1,909,985	200,000		55,200
Exelon Corp., Chairman, Exelon Energy Delivery, & Exelon Enterprises	2001	1,050,000	1,500,300	71,369	1,354,104	233,000		52,729
Oliver D. Kingsley, Jr. President and COO,	2003	824,038	969,924	185,294	1,164,737	60,000		41,202
Exelon	2002	728,634	823,680	102,387	2,373,140	80,000		36,432
Corp., President & CEO, Exelon Generation	2001	650,000	928,000		597,729			32,499
Robert S. Shapard (See Note 5.)	2003	512,404	411,362		634,530	36,000		25,620
Executive Vice	2002	96,154	83,609	72,344	940,484	20,000		1,923
President and Chief Financial Officer,	2001							

Denis P. O Brien	2003	296,154	194,897		285,896	15,000	14,696
President, PECO	2002	208,896	186,491		129,681	13,500	10,445
	2001	195,000	142,437		109,970		9,750
Kenneth G. Lawrence							
(See Note 7.)	2003	386,077	214,882		449,163	30,000	2,487,378
							(See Note 8)
Former Chairman,	2002	410,000	344,400		2,023,070	45,000	20,500
PECO	2001	370,577	378,700		243,979		14,029

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Notes to Summary Compensation Table

1 The amounts shown under in the column labeled Annual Compensation Other includes perquisites and other benefits if the aggregate amount of such benefits exceeds $50,000. For Mr. Bemis, the amount shown for 2003 includes $121,147 for moving expenses and $36,456 for gross up payments. For Mr. Rowe, the amount shown for 2003 includes $269,435 for personal use of corporate aircraft, and $25,733 for gross-up payments. For Mr. Kingsley, the amount shown for 2003 includes $164,152 for personal use of corporate aircraft.

2 As of December 31, 2003 the officers named above held the following amounts of restricted shares:

	Number of Restricted Shares	Dollar Value of Restricted Shares
Michael B. Bemis	6,500	$ 431,340
Pamela B. Strobel	19,705	$ 1,307,624
John W. Rowe	78,269	$ 5,193,931
Oliver D. Kingsley, Jr.	59,843	$ 3,971,181
Robert S. Shapard	26,177	$ 1,737,106
Denis P. O Brien	6,984	$ 463,443
Kenneth G. Lawrence	0	$ 0

The number of shares above includes performance shares which were granted in January 2004 with respect to 2003 and are included in the Summary Compensation Table for 2003. One-third of the shares awarded vested immediately and one-third vests on each of

3 Mr. Bemis commenced employment on August 12, 2002 and resigned effective on February 1, 2004.

4 Ms. Strobel was CEO through April 30, 2003.

5 Mr. Shapard commenced employment on October 21, 2002.

6 Includes a sign-on bonus of $100,000 awarded when Mr. Bemis commenced employment, payable in January 2003. Includes severance payments including $450,000 lump sum severance payment, the value of a fully vested award of 15,000 shares of Exelon common stock (valued at $66.98 per share) in final payment of Mr. Bemis special award program and $9,936 to cover termination of an apartment lease. The terms of Mr. Bemis severance also included continued health care and life insurance coverage for one year at the same cost charged to active executives, reimbursement of reasonable personal financial, income tax, and estate planning services through December 31, 2004, in accordance with Exelon s policies for senior executives, continued officers and directors insurance for six years, and accrued but unpaid salary and vacation. Mr. Bemis is subject to restrictive covenants for two years after his resignation.

7 Mr. Lawrence retired on October 31, 2003.

8 Includes severance payments including a $2,374,650 lump sum severance payment. Mr. Lawrence is also entitled to accelerated vesting of previously disclosed restricted stock (17,500 shares) and performance share awards (13,606 shares) which are net of 17,500 shares forfeited. The terms of Mr. Lawrence s severance also included a SERP benefit calculated with an additional three years of service and as if he had attained the age of 58 and as though he received the severance payments as regular salary and incentive pay in the three years following his retirement, continued health care and life insurance coverage for three years at the same cost charged to active executives, one year of outplacement services and three years of reimbursement for reasonable personal financial, income tax, and estate planning services, in accordance with Exelon s policies for senior executives, continued officers and directors insurance for six years, and accrued but unpaid salary and vacation. Mr. Lawrence is subject to restrictive covenants for two years after his retirement.

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Option Grants in 2003

	Individual Grants				
	Number of Securities Underlying Options Granted (#)	Percentage of Total Options Granted to Employees in 2003	Exercise or Base Price ($/Share)	Options Expiration Date	Grant Date Present Value ($)
Michael B. Bemis	0	N/A	N/A	N/A	N/A
Pamela B. Strobel	36,000	1.14%	49.61	1/26/2013	397,800
John W. Rowe	175,000	5.52%	49.61	1/26/2013	$ 1,933,750
Oliver D Kingsley, Jr.	60,000	1.89%	49.61	1/26/2013	663,000
Robert S. Shapard	36,000	1.14%	49.61	1/26/2013	397,800
Denis P. O Brien	15,000	0.47%	49.61	1/26/2013	165,750
Kenneth G. Lawrence	30,000	0.95%	49.61	1/26/2013	331,500

The grant date present values indicated in the Option Grant Table above are estimates based on the Black Scholes option pricing model. Although executives risk forfeiting these options in some circumstances, these risks are not factored into the calculated values. The actual value of these options will be determined by the excess of the stock price over the exercise price on the date that the options are exercised. There is no certainty that the actual value realized will be at or near the value estimated by the Black Scholes option pricing model. The assumptions used for the Black Scholes model are as of the date of the grants, January 27, 2003 and are as follows: Risk Free Interest Rate: 3.04%; Volatility: 30.60%; Dividend Yield: 3.34%; Time of Exercise: 5 Years.

Option Exercises & Year End Value

	As of December 31, 2003					
	Number of Shares Acquired by Exercise	Dollar Value Realized From Exercise	Number of Securities Underlying Remaining Options		Dollar Value of In-the-Money Options	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael B. Bemis	0	$ 0	0	0	$ 0	$ 0
Pamela B. Strobel	47,500	1,151,353	142,250	76,000	1,908,395	1,380,600
John W. Rowe	0	0	706,467	541,633	14,015,095	5,523,244
Oliver D Kingsley, Jr.	57,000	1,411,320	287,917	113,333	4,600,461	2,041,794
Robert S. Shapard	0	0	6,667	49,333	115,739	834,461
Denis P. O Brien	8,000	267,940	41,000	24,000	996,464	426,210
Kenneth G. Lawrence	40,000	1,187,563	138,000	0	1,407,900	0

This table shows the number and value of exercisable and unexercisable stock options for the named executive officers during 2003. Value is determined using the market value of Exelon common stock at the December 31, 2003 price of $66.36 per share, less the value of Exelon common stock at the exercise price. All options whose exercise price exceeds the market value at the date of valuation are valued at zero. Mr. Lawrence s remaining options are valued as of October 31, 2003.

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Retirement Plans

Exelon Retirement Benefits

The following tables show the estimated annual retirement benefits payable on a straight-life annuity basis to participating employees, including officers, in the earnings and year of service classes indicated, under Exelon s non-contributory retirement plans.

Effective January 1, 2001, Exelon Corporation assumed sponsorship of the Commonwealth Edison Company Service Annuity System and the PECO Energy Company Service Annuity Plan. Effective December 31, 2001, these plans were merged to form the Exelon Corporation Retirement Program, which incorporates the separate benefit formula of each merged plan for employees in business units formerly covered by that merged plan. Effective January 1, 2001, Exelon Corporation also established two cash balance pension plans which cover management employees and collective bargaining unit employees hired on or after such date. The amounts shown in the table are not subject to any deduction for Social Security or other offset amounts.

Covered Compensation

Covered compensation includes salary and bonus which is disclosed in the Summary Compensation Table for the named executive officers. The calculation of retirement benefits under the plans is based upon average earnings for the highest consecutive five-year period under the PECO Energy Company Service Annuity Benefit Formula and for the highest four-year period (three-year for certain represented employees) under the ComEd Service Annuity Benefit Formula.

The Internal Revenue Code limits the annual benefits that can be paid from a tax-qualified retirement plan to $170,000 as of January 1, 2001. As permitted by the Employee Retirement Income Security Act of 1974, Exelon sponsored supplemental plans which allow the payment out of its general assets of any benefits calculated under provisions of the applicable retirement plan which may be above these limits.

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PECO Energy Service Annuity Formula Table

Highest 5-Year Average Earnings	Annual Normal Retirement Benefits After Specified Years of Service						
	10 years	15 years	20 years	25 years	30 years	35 years	40 years
$ 100,000	$ 19,119	$ 26,179	$ 33,239	$ 40,299	$ 47,358	$ 54,418	$ 61,478
200,000	39,619	54,429	69,239	84,049	98,858	113,668	128,478
300,000	60,119	82,679	105,239	127,799	150,358	172,918	195,478
400,000	80,619	110,929	141,239	171,549	201,858	232,168	262,478
500,000	101,119	139,179	177,239	215,299	253,358	291,418	329,478
600,000	121,619	167,429	213,239	259,049	304,858	350,668	396,478
700,000	142,119	195,679	249,239	302,799	356,358	409,918	463,478
800,000	162,619	223,929	285,239	346,549	407,858	469,168	530,478
900,000	183,119	252,179	321,239	390,299	459,358	528,418	597,478
1,000,000	203,619	280,429	357,239	434,049	510,858	587,668	664,478

Commonwealth Edison Service Annuity Formula Table

Highest 5-Year Average Earnings	Annual Normal Retirement Benefits After Specified Years of Service						
	10 years	15 years	20 years	25 years	30 years	35 years	40 years
$ 100,000	$ 17,783	$ 29,472	$ 40,282	$ 50,414	$ 60,031	$ 69,261	$ 78,200
200,000	35,867	59,922	82,180	103,036	122,808	141,743	160,033
300,000	53,951	90,371	124,078	155,659	185,584	214,223	241,865
400,000	72,029	120,820	165,976	208,281	248,359	286,704	323,698
500,000	90,118	151,269	207,874	260,903	311,136	359,185	405,531
600,000	108,202	181,719	249,772	313,525	373,912	431,666	487,364
700,000	126,285	212,168	291,670	366,147	436,687	504,148	569,196
800,000							