

CONSTELLATION ENERGY GROUP INC  
Form DEF 14A  
April 13, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_\_\_)**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Constellation Energy Group, Inc.**

*(Name of Registrant as Specified in Its Charter)*

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*(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)*

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**MAYO A. SHATTUCK III**  
*Chairman of the Board*

Constellation Energy Group, Inc.  
750 East Pratt Street  
Baltimore, Maryland 21202

April 13, 2005

Dear Shareholder:

You are invited to attend our annual meeting of shareholders to be held on Friday, May 20, 2005, at 9:00 a.m. in the Sky Lobby Conference Room, 750 East Pratt Street, in downtown Baltimore. Enclosed is our 2004 Annual Report for your review.

At the meeting, we will review our 2004 performance and answer shareholder questions. In addition, shareholders will be voting on the following business matters: the election of Class III directors and the ratification of our independent registered public accountants for 2005. Please consider the issues presented and vote your shares as promptly as possible.

**Your vote is important.** Whether or not you plan to attend the annual meeting, please complete your proxy card and return it to us to ensure that your vote is counted. If you hold your shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares.

Thank you for your continued support of Constellation Energy.

Sincerely,

Mayo A. Shattuck III

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## Constellation Energy Group, Inc.

750 East Pratt Street

Baltimore, MD 21202

### Notice of Annual Meeting of Shareholders

To the Owners of Common Stock of

Constellation Energy Group, Inc.:

Our annual meeting of shareholders will be held on **Friday, May 20, 2005** at 9:00 a.m., in the Sky Lobby Conference Room, 750 East Pratt Street, Baltimore, Maryland to:

1. elect Class III directors to serve for three-year terms expiring in 2008,
2. ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accountants for 2005, and
3. transact any other business that properly comes before the meeting, or any adjournment thereof.

**The Board of Directors recommends a vote FOR each of the Director nominees and ratification of the independent registered public accountants.**

We discuss the above business matters in more detail in the attached Proxy Statement.

Only holders of record of our common stock at the close of business on March 18, 2005 will be entitled to vote.

Charles A. Berardesco

Corporate Secretary

April 13, 2005

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## Constellation Energy Group, Inc.

### Proxy Statement

#### QUESTIONS & ANSWERS ON VOTING PROCEDURES

*Who is entitled to vote at the annual meeting, and how many votes do they have?*

Holders of our common stock who own shares as of the close of business on March 18, 2005 may vote at the meeting. Each share has one vote. There were 177,358,532 shares of common stock outstanding on that date.

*When were the enclosed solicitation materials first given to shareholders?*

The enclosed Annual Report and proxy card, together with this Notice of Annual Meeting and Proxy Statement, were first sent, or given, to shareholders on or about April 13, 2005.

*What is a quorum of shareholders?*

A quorum is the presence at the annual meeting in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast. Since there were 177,358,532 shares of common stock outstanding on March 18, 2005, the presence of holders of 88,679,267 shares is a quorum. We must have a quorum to conduct the meeting.

*How many votes does it take to pass each matter?*

If a quorum of shareholders is present at the meeting, we need:

a plurality of all the votes cast to elect each director nominee, and



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a majority of all the votes cast to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accountants.

### ***How are abstentions and broker non-votes treated?***

Abstentions and broker non-votes count for purposes of determining the presence of a quorum. For all matters, abstentions and broker non-votes will not have any effect on the result of the vote.

### ***How do I vote?***

You must be present, or represented by proxy, at the annual meeting in order to vote your shares. Since many of our shareholders are unable to attend the meeting in person, we send proxy cards to all of our shareholders.

### ***If my shares are held in street name by my broker, will my broker vote my shares for me?***

If your shares are held in a brokerage account, you will receive a full meeting package including a voting instructions form to vote your shares. Your brokerage firm may permit you to provide voting instructions by telephone or by the Internet. Brokerage firms have the authority under New York Stock Exchange rules to vote their clients' unvoted shares on certain routine matters. If you do not vote, your brokerage firm may choose to vote for you or leave your shares unvoted. We urge you to respond to your brokerage firm so that your vote will be cast.

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### ***What is a proxy?***

A proxy is another person you authorize to vote on your behalf. We solicit proxy cards that are used to instruct the proxy how to vote so that all common shares may be voted at the annual meeting even if the holders do not attend the meeting.

### ***How will my proxy vote my shares?***

If you properly sign and return your proxy card or voting instructions form, your shares will be voted as you direct. If you sign and return your proxy card or voting instructions form but do not specify how you want your shares voted, they will be voted FOR the election of each director nominee and FOR the ratification of the appointment of our independent registered public accountants. Also, you will give your proxies authority to vote, using their discretion, on any other business that properly comes before the meeting.

### ***How do I vote using my proxy card?***

There are three steps.

1. Vote on each of the matters as follows:

**Item 1.** The names of the nominees for Class III directors to serve three-year terms are listed on your proxy card. You have three options:

**Option 1.** To vote for all of the nominees, you check the box marked **FOR**.

**Option 2.** To vote for some of the nominees and against the rest, you check the box marked **FOR ALL EXCEPT** and then fill in the circle next to each nominee that you want to vote against or otherwise follow the instructions on the voting instructions form provided by your brokerage firm or employee savings plan trustee.

**Option 3.** To abstain from voting for all of the nominees (that is, not vote for or against any of the nominees), you check the box marked **WITHHOLD AUTHORITY FOR ALL NOMINEES**, or otherwise follow the instructions on the voting instructions form provided by your brokerage firm or employee savings plan trustee.

**Item 2.** Check the box **FOR**, or **AGAINST**, or **ABSTAIN** (to cast no vote).

2. Sign and date your proxy card. **If you do not sign and date your proxy card, your votes cannot be counted.**
3. Mail your proxy card in the pre-addressed, postage-paid envelope.

Please check the box on your proxy card if you plan to attend the annual meeting.

*Can I vote by proxy even if I plan to attend the annual meeting?*

Yes. If you vote by proxy and decide to attend the annual meeting, you do not need to fill out a ballot at the meeting, unless you want to change your vote.

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### ***Why might I receive more than one proxy card? Should I vote on each proxy card I receive?***

First, you may have various accounts with us that are registered differently, perhaps in different names or with different social security or federal tax identification numbers. Second, you may also own shares indirectly through your broker or through our employee savings plans. Your broker or the plan trustee will send you a proxy card or voting instructions form for these shares. You should vote on each proxy card or voting instructions form you receive and mail it to the address shown on the proxy card or form. If employee savings plan participants do not vote their shares, the plan trustee will vote the shares in the same proportion as the trustee was instructed to vote shares for which it received voting instructions forms.

### ***How can I get only one copy of the Annual Report sent to my home if I currently receive multiple copies?***

You may be receiving multiple copies of the Annual Report because you have more than one account, each registered differently with the same mailing address. To receive only one Annual Report you may:

<b>write to:</b>	<b>-or-</b>	<b>call:</b>
American Stock Transfer & Trust Company		1-800-258-0499
Attn: Shareholder Services		
59 Maiden Lane		
New York, NY 10038		

### ***How do I change previous instructions to send only one Annual Report to my home?***

Simply call the number noted above or notify our transfer agent at the address indicated in the previous question that you want to receive an Annual Report for each of your accounts (your stock account numbers must be included in the notification).

### ***How do I change my vote?***

You may change your vote at any time before the annual meeting by:

notifying Charles A. Berardesco, Corporate Secretary, in writing at 750 East Pratt Street, 18<sup>th</sup> Floor, Baltimore, MD 21202, that you are changing your vote; or

completing and sending in another proxy card or voting instruction form with a later date; or

attending the annual meeting and voting in person.

*Who is soliciting my proxy, how is it being solicited, and who pays the cost?*

Constellation Energy, on behalf of the Board of Directors, through its directors, officers and employees, is soliciting proxies primarily by mail. However, proxies may also be solicited in person, by telephone or facsimile. Constellation Energy pays the cost of soliciting proxies.

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**MATTERS YOU ARE VOTING ON**

**Proposal No. 1 Election of Constellation Energy Directors**

The Board is divided into three classes (Class I, Class II and Class III), with one class of directors elected at each annual meeting of shareholders for a three-year term. Yves C. de Balmann, Freeman A. Hrabowski, III, Nancy Lampton and Lynn M. Martin have been nominated by the Board for election as Class III directors at the annual meeting for terms of three years each and until their respective successors are duly elected and qualified. Roger W. Gale, a current Class III director, has informed the Board of Directors that he will not stand for re-election. Each of the nominated directors agrees to serve if elected. However, if for some reason one of them is unable to serve or for good cause will not serve, your proxies will vote for the election of another person nominated by the Board of Directors, unless the Board reduces the number of directors. Biographical information for each of the nominees and other information about them is presented beginning on page 5. ***The Board of Directors recommends a vote FOR each director nominee.***

**Proposal No. 2 Ratification of Appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accountants for 2005**

This proposal is to ratify our appointment of PricewaterhouseCoopers LLP as our independent registered public accountants for 2005. See Proposal No. 2 on page 32. ***The Board of Directors recommends a vote FOR this proposal.***

**Other Business Matters**

The Board of Directors is not aware of any other business for the annual meeting. However:

if any of the persons named to serve as directors are unable to serve or for good cause will not serve,

if any shareholder proposal, which is not in this Proxy Statement or on the proxy card or voting instructions form pursuant to Rule 14a-8 or 14a-9 of the Securities Exchange Act of 1934, is presented for action at the meeting, or

if any matters concerning the conduct of the meeting are presented for action,

then shareholders present at the meeting may vote on such items. If you are represented by proxy, your proxy will vote your shares using his or her discretion.



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**PROPOSAL NO. 1 ELECTION OF CONSTELLATION ENERGY DIRECTORS**

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR EACH NOMINEE. IF NOT OTHERWISE SPECIFIED, PROXIES WILL BE VOTED FOR EACH NOMINEE.**

**CLASS III DIRECTOR NOMINEES FOR TERMS TO EXPIRE IN 2008**

**Yves C. de Balmann**, age 58, a director since July 2003, has been Co-Chairman of Bregal Investments since September 2002. He was Co-Chairman and Co-Chief Executive Officer of Deutsche Banc Alex. Brown from June 1999 to April 2001, and a Senior Advisor to Deutsche Bank AG from April 2001 to June 2003. Mr. de Balmann was Vice Chairman of Bankers Trust Co. from 1997 to June 1999. He is also a director of ESI Group, a technology company based in France.

**Freeman A. Hrabowski, III**, age 54, a director since April 1999, has been President of the University of Maryland Baltimore County since 1993. He is also a director of the Baltimore Equitable Society, Broadwing Corporation, McCormick & Company, Inc., Mercantile Bankshares Corporation and Mercantile-Safe Deposit and Trust Company. Dr. Hrabowski was a director of Baltimore Gas and Electric Company from 1994 to April 1999.

**Nancy Lampton**, age 62, a director since April 1999, has been Chairman and Chief Executive Officer of American Life and Accident Insurance Company of Kentucky since 1971 and has been Chairman and Chief Executive Officer of its holding company, Hardscuffle, Inc., since January 2000. She is also a director of DNP Select Income Fund. Ms. Lampton was a director of Baltimore Gas and Electric Company from 1994 to April 1999.

**Lynn M. Martin**, age 65, a director since October 2003, has been an Advisor to Deloitte & Touche LLP since 1993 and President of The Martin Hall Group LLC, a human resources consulting firm, since January 2005. From 1993 to 1999, she was a Professor at the Kellogg School of Management at Northwestern University. Ms. Martin served as United States Secretary of Labor from 1991 to 1993. Prior to her tenure as Secretary of Labor, she was a member of the United States House of Representatives from 1981 to 1991. She is also a director of The Procter & Gamble Company, Ryder System, Inc., SBC Communications and various funds of The Dreyfus Corporation.

**CLASS I DIRECTORS WHOSE TERMS EXPIRE IN 2006**

**Douglas L. Becker**, age 39, a director since April 1999, has been Chairman and Chief Executive Officer of Laureate Education, Inc. (formerly Sylvan Learning Systems, Inc.) since February 2000 and was President and Co-Chief Executive Officer of Laureate Education, Inc. from February 1991 to February 2000. He is also Founder and Principal of Sterling Capital Partners, an investment company. Mr. Becker is a director of Educate, Inc. and was a director of Baltimore Gas and Electric Company from October 1998 to April 1999.



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**Frank P. Bramble, Sr.**, age 56, a director since January 2002, has been a consultant to MBNA Corporation since January 2005, having served as Vice Chairman of MBNA Corporation from May 2002 to December 2004. From April 1994 to May 2002, Mr. Bramble was a director of Allfirst Financial, Inc. and Allfirst Bank, and from December 1999 to May 2002, he also was Chairman of the Board. From April 1999 to December 1999, he was the Chairman of the Board and the Chief Executive Officer of the same two companies. From November 1998 until May

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2002, Mr. Bramble was the Chief Executive, USA, and a director of Allied Irish Banks, p.l.c., the parent of Allfirst Financial, Inc.

**Edward A. Crooke**, age 66, a director since April 1999, served as Vice Chairman of Constellation Energy and Baltimore Gas and Electric Company from October 2000 until December 2001. He previously was Vice Chairman of Constellation Energy from April 1999 until January 1, 2000. He also served as President and Chief Operating Officer of Baltimore Gas and Electric Company from 1992 to 1998, Vice Chairman from 1998 to 1999 and as a director from 1988 to April 1999. Prior to January 1, 2000, he also served as a director, Chairman of the Board, President and Chief Executive Officer of Constellation Enterprises, Inc. He also served as a director of each of Constellation Enterprises, Inc.'s direct subsidiaries and most of its indirect subsidiaries, and was Chairman of the Board of each of the direct subsidiaries. He is also a director of AEGIS Insurance Services, Inc., Associated Electric & Gas Insurance Services, Limited and Baltimore Equitable Society.

**Mayo A. Shattuck III**, age 50, a director since May 1999, has been Chairman of the Board of Constellation Energy since July 2002 and President and Chief Executive Officer since November 2001. Mr. Shattuck has also been Chairman of the Board of Baltimore Gas and Electric Company since July 2002. He was Global Head of Investment Banking and Global Head of Private Banking for Deutsche Banc Alex. Brown from June 1999 to October 2001, and held various officer positions during that period. From 1997 to June 1999, Mr. Shattuck was Vice Chairman of Bankers Trust Corporation. He is also a director of Capital One Financial Corporation, Gap, Inc., the Edison Electric Institute, the Nuclear Energy Institute and the Institute of Nuclear Power Operations.

**Michael D. Sullivan**, age 65, a director since April 1999, is a private investor, and is a Co-Founder and has been Chairman of the Board of Life Source, Inc. (nutritional supplements) since March 2001. Mr. Sullivan is also Co-Founder and Chairman of Therapeutic Services of America, Inc. (home health care). From 1996 to 2001, Mr. Sullivan was Chairman of the Board of Golf America Stores, Inc. (golf apparel retailing). He was also Chairman of the Board of Jay Jacobs, Inc. (specialty apparel retailing) from 1997 to July 1999. Mr. Sullivan was a director of Baltimore Gas and Electric Company from 1992 to April 1999.

## **CLASS II DIRECTORS WHOSE TERMS EXPIRE IN 2007**

**James T. Brady**, age 64, a director since May 1999, has been the Managing Director - Mid-Atlantic of Ballantrae International, Ltd. (a management consulting firm) since January 2000, and was the former secretary of the Maryland Department of Business & Economic Development, where he served from 1995 to 1998. He was also a managing partner of Arthur Andersen LLP from 1985 to 1995. Mr. Brady is a director of McCormick & Company, Inc., T. Rowe Price Group, Inc. and Aether Systems, Inc. Mr. Brady also was a director of Constellation Enterprises, Inc. from March 1998 to May 1999.

**James R. Curtiss**, age 51, a director since April 1999, has been a partner in the law firm of Winston & Strawn since 1993. From 1988 to 1993, he served as a Commissioner of the United States Nuclear Regulatory Commission. He is also a director of Cameco Corporation (owner and operator of uranium mines). Mr. Curtiss was a director of Baltimore Gas and Electric Company from 1994 to April 1999.

**Edward J. Kelly, III**, age 51, a director since January 2002, has been President and Chief Executive Officer of Mercantile Bankshares Corporation since March 2001 and Chairman since March 2003.



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He has been Chairman of the Board and Chief Executive Officer of Mercantile-Safe Deposit and Trust Company since March 2001. Mr. Kelly served as Managing Director, Head of Global Financial Institutions, and as Co-Head of Investment Banking Client Management of J. P. Morgan, Chase & Co. from January 2001 to February 2001. Prior to that, he was a Managing Director of J. P. Morgan & Co. Incorporated and held the following additional positions with that company: Head, Global Financial Institutions from February 2000 through December 2000; Co-Head, Global Financial Institutions and Head, Latin America Investment Banking from December 1997 through February 2000; and Member, Global Investment Banking Committee from December 1997 through December 2000. He is also a director of Hartford Financial Services Group, CIT Group (until May 2005), CSX Corporation and AXIS Capital Holdings Limited (insurance).

**Robert J. Lawless**, age 58, a director since January 2002, has been Chairman of the Board, Chief Executive Officer and President of McCormick & Company, Inc. since January 1997. He is also a director of Baltimore Life, Inc.

## **DETERMINATION OF INDEPENDENCE**

A majority of Constellation Energy's directors are required to be independent in accordance with New York Stock Exchange listing standards. For a director to be considered independent, the Board of Directors must affirmatively determine that such director has no material relationship with Constellation Energy. When assessing the materiality of a director's relationship with Constellation Energy, the Board of Directors considers the issue from both the standpoint of the director and from that of persons and organizations with whom or with which the director has an affiliation. The Board of Directors has adopted standards to assist it in determining if a director is independent. A director shall be deemed to have a material relationship with Constellation Energy and shall not be deemed to be an independent director if:

the director has been an employee of Constellation Energy or any of its affiliated entities at any time since January 1, 2002, or an immediate family member of the director has been an executive officer of Constellation Energy or any of its affiliated entities at any time since January 1, 2002; provided that employment of a director as an interim chairman of the Board or chief executive officer or other executive officer of Constellation Energy shall not disqualify such director from being considered independent following termination of that employment;

the director or an immediate family member is a current partner of a firm that is Constellation Energy's internal or external auditor;

the director is a current employee of a firm that is Constellation Energy's internal or external auditor;

the director has an immediate family member who is a current employee of a firm that is Constellation Energy's internal or external auditor who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice;

the director or an immediate family member was at any time since January 1, 2002 (but is no longer) a partner or employee of a firm that is Constellation Energy's internal or external auditor and personally worked on Constellation Energy's audit within that time;

the director or an immediate family member, is, or has been at any time since January 1, 2002, employed as an executive officer of another company where any of Constellation Energy's present executive officers at the same time serves or served on that company's compensation committee;



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the director is a current executive officer or employee, or an immediate family member is a current executive officer, of another company that has made payments to, or received payments from (other than contributions to tax exempt organizations), Constellation Energy for property or services in an amount which, in any of the other company's last three fiscal years, exceeds the greater of \$1.0 million or 2% of such other company's consolidated gross revenues; or

the director has received, or has an immediate family member who has received, during any twelve-month period since January 1, 2002, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service); provided, however, that (i) compensation received by a director for former service as an interim chairman or chief executive officer or other executive officer need not be considered and (ii) compensation received by an immediate family member for service as an employee of the Company (other than an executive officer) need not be considered.

The Board of Directors has determined that each member of the Board, other than Mr. Shattuck, who is the Chief Executive Officer of Constellation Energy, has no material relationship with Constellation Energy and is independent under New York Stock Exchange listing standards. In addition, the Audit, Compensation and Nominating and Corporate Governance Committees are composed entirely of independent directors under New York Stock Exchange listing standards, Securities and Exchange Commission requirements and other applicable laws, rules and regulations.

## **MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS**

The Board met five times for regularly scheduled meetings in 2004. Each of the directors attended 75% or more of the total number of meetings of the Board and of any committees on which the director served.

The Board has the following committees:

**Executive Committee:** This committee may exercise all of the powers of the Board of Directors, except that it may not authorize dividends or the issuance of stock (except in certain limited circumstances authorized by the Board of Directors), recommend to shareholders any action requiring shareholder approval, amend the by-laws, or approve mergers or share exchanges that do not require shareholder approval. Mr. Shattuck is Chairman, and Messrs. Bramble, Crooke, Kelly and Lawless are members. The committee met once in 2004.

**Audit Committee:** This committee oversees Constellation Energy's auditing, accounting, financial reporting, risk management, corporate compliance and internal control functions as set forth in its charter. The committee also approves the services provided by Constellation Energy's independent accounting firm, and monitors and evaluates its performance, the fees paid, and the compatibility of the non-audit services provided by the firm with maintaining the firm's independence. All committee members are independent as defined by New York Stock Exchange listing standards and the applicable rules of the Securities and Exchange Commission. Mr. Brady is the committee's audit committee financial expert as that term is defined in the applicable rules of the Securities and Exchange Commission, and the Board of Directors has determined that each member of the committee is financially literate as that term is defined in the listing standards of the New York Stock Exchange. Mr. Brady currently serves on the audit committees of three other public companies. The Board of Directors has determined that such service does not impair the ability of



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Mr. Brady to effectively serve on the committee. The committee met 10 times in 2004. Mr. Brady is Chairman, and Dr. Hrabowski, Mr. de Balmann and Ms. Lampton are members.

**Committee on Nuclear Power:** This committee monitors the performance and safety at our nuclear power plants. The committee met four times in 2004. Mr. Curtiss is Chairman, and Dr. Gale and Mr. Crooke are members.

**Compensation Committee:** This committee reviews the recommendations of the Chief Executive Officer for candidates for positions as executive officers of Constellation Energy and recommends candidates to the Board. It reviews and recommends to the Board compensation for directors, and establishes compensation and reviews perquisites and fringe benefits for the Chief Executive Officer and other executive officers. The committee approves the terms of any severance, change in control or employment contract for the Chief Executive Officer and other executive officers. The committee also oversees succession planning for the Chief Executive Officer and senior management. All committee members are independent as defined by New York Stock Exchange listing standards. The committee met three times in 2004. Mr. Lawless is Chairman, and Messrs. Becker, Bramble, Kelly and Sullivan and Ms. Martin are members.

**Nominating and Corporate Governance Committee:** This committee considers and recommends to the Board nominees for election as directors, including nominees recommended by shareholders. It oversees corporate governance, Board composition, annual evaluations of the Board and its committees, and committee structure, membership and functions. The committee periodically reviews Constellation Energy's Corporate Governance Guidelines and Principles of Business Integrity. All committee members are independent as defined by New York Stock Exchange listing standards. The committee met three times in 2004. Mr. Sullivan is Chairman, and Messrs. Becker, Bramble, Kelly and Lawless and Ms. Martin are members.

Constellation Energy maintains on its website, [www.constellation.com](http://www.constellation.com), copies of the charters of each of the committees of the Board of Directors, as well as copies of its Corporate Governance Guidelines, Principles of Business Integrity, Corporate Compliance Program and Insider Trading Policy. Copies of these documents are also available in print upon request of Constellation Energy's Corporate Secretary. The Principles of Business Integrity is a code of ethics which applies to all of our directors, officers and employees, including the chief executive officer, chief financial officer and chief accounting officer. We will post any amendments to, or waivers of, the Principles of Business Integrity applicable to our chief executive officer, chief financial officer or chief accounting officer on our website.

In addition, the Board of Directors has designated the Chairman of the Nominating and Corporate Governance Committee to act as its Lead Director. In that capacity, the current Chairman, Mr. Sullivan, has the following duties and authority:

presiding at all meetings of the Board where the Chairman of the Board is not present;

serving as a liaison between the Chairman of the Board and the independent directors;

approving information sent to the Board, and agendas and meeting schedules for Board meetings;

calling meetings of independent directors;



chairing executive sessions of the independent members of the Board; and

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serving as contact for shareholder complaints (other than auditing/accounting complaints, for which the Chairman of the Audit Committee is the contact for shareholders).

Interested parties may communicate directly with Mr. Sullivan in his capacity as Lead Director by writing to the Corporate Secretary, Constellation Energy Group, Inc., 750 East Pratt Street, 18<sup>th</sup> Floor, Baltimore, MD 21202, or by calling 1-877-248-1476.

## **NOMINATIONS FOR DIRECTOR**

The Board seeks diverse candidates who possess the background, skills and expertise to make a significant contribution to the Board, Constellation Energy and its shareholders. Annually, the Nominating and Corporate Governance Committee reviews the qualifications and backgrounds of the directors whose terms expire the next year, as well as the overall composition of the Board, and recommends to the full Board the slate of director candidates to be nominated for election at the next annual meeting of shareholders. The Board of Directors has adopted a policy whereby the Nominating and Corporate Governance Committee shall consider the recommendations of Constellation Energy's shareholders with respect to candidates for election to the Board of Directors and the process and criteria for such candidates shall be the same as those currently used by Constellation Energy or otherwise suggested by the Board of Directors or management for director candidates recommended by the Board of Directors.

Constellation Energy's Corporate Governance Guidelines, a copy of which is maintained on our website [www.constellation.com](http://www.constellation.com), include the following criteria that are to be considered by the Nominating and Corporate Governance Committee and Board of Directors in considering candidates for nomination to the Board:

Experience, including leadership experience in business or administrative activities; breadth of knowledge about issues affecting Constellation Energy and the industries/markets in which it operates; and the ability and willingness to contribute special competencies to Board activities.

Personal attributes, including unquestioned personal integrity; loyalty to Constellation Energy and concern for its success and welfare; willingness to criticize and to apply sound business ethics and independent judgment; awareness of the director's role in Constellation Energy's corporate citizenship responsibilities and image; availability for meetings and consultation on Constellation Energy matters; broad contacts with relevant business and political leaders; and willingness to assume broad stewardship responsibility on behalf of all constituents for the management of Constellation Energy.

Each Board member is expected to devote sufficient time to carrying out Board duties and responsibilities effectively and should be committed to serve on the Board for an extended period of time.

Each Board member is expected to become a shareholder and have a financial stake in Constellation Energy. In this regard, directors are required to, within five years of the later of (a) October 23, 2004, or (b) their initial appointment as a director of Constellation Energy, own Constellation Energy stock or deferred stock units with a value equal to at least five times the amount of their annual cash retainer for service as a director.

Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, sexual orientation, ancestry, national origin or disability.



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Each of the nominees for director proposed by the Board of Directors is a current director of Constellation Energy, and, as discussed in *Determination of Independence* on page 7, all of them have been determined by the Board of Directors to be independent under New York Stock Exchange listing standards.

A shareholder who wishes to recommend to the Nominating and Corporate Governance Committee a nominee for director for the 2006 annual meeting of shareholders should submit the recommendation in writing to the Corporate Secretary, Constellation Energy Group, Inc., 750 East Pratt Street, 18<sup>th</sup> Floor, Baltimore, MD 21202, by no later than January 28, 2006.

## **SHAREHOLDER COMMUNICATIONS**

The Board of Directors has adopted a policy whereby any communications from shareholders of Constellation Energy to the Board of Directors shall be directed to the Corporate Secretary, who shall (i) determine whether any of such communications are significant, and promptly forward significant communications to the Board of Directors, and (ii) keep a record of all shareholder communications that the Corporate Secretary deems not to be significant and report such communications to the Board on a periodic basis, but not less frequently than quarterly.

A shareholder who wishes to communicate to the Board of Directors may submit such communication in writing to the Corporate Secretary, Constellation Energy Group, Inc., 750 East Pratt Street, 18<sup>th</sup> Floor, Baltimore, MD 21202, or call 1-877-248-1476.

The Board of Directors has adopted a policy which encourages each director to attend the annual meeting of shareholders. Ten of the 14 directors in office as of the date of the 2004 annual meeting of shareholders attended the meeting.

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**DIRECTORS COMPENSATION**

We do not pay directors who are also employees of Constellation Energy or its subsidiaries for their service as directors. In 2004, non-employee directors received the following compensation:

\$30,000 annual retainer (increased to \$50,000 for 2005), a \$10,000 annual retainer for the audit committee chairman and a \$5,000 annual retainer for each other committee chairman,

common stock award with a value of approximately \$35,000 (increased to \$50,000 for 2005), which stock is subject to pro rata forfeiture if Board service ceases during the year,

\$1,250 fee for each regular or special Board or Board committee meeting attended, and

reasonable travel expenses to attend meetings.

Directors had the opportunity to elect to defer some or all of their retainers in deferred stock units or in a cash account, and to defer some or all of their fees in a cash account. Deferred stock units are bookkeeping entries that track the performance of Constellation Energy common stock and are not actual shares of stock. The bookkeeping entries reflect Constellation Energy common stock price changes, dividends, stock splits and other capital changes. At the end of their Board service, directors receive cash based on the value of their deferred stock units. Beginning in 2005, non-employee directors are now permitted to also defer their common stock award into deferred stock units.

In connection with the adoption of the director stock ownership guidelines described in *Nominations of Directors* on page 11, restrictions on outstanding restricted stock grants prohibiting the sale or transfer of the stock until the end of the director's Board service were removed effective January 1, 2005.

Under Constellation Energy's matching gifts program, Constellation Energy will match up to \$10,000 per year in contributions that each director makes to tax-exempt organizations.

**CERTAIN RELATIONSHIPS AND TRANSACTIONS**

James R. Curtiss, a director of Constellation Energy, is a partner in the law firm of Winston & Strawn. A subsidiary of Constellation Energy paid fees to this firm for legal services rendered in 2004, and expects to pay fees for legal services in 2005.



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**REPORT OF THE AUDIT COMMITTEE**

The role of the Audit Committee is to assist the Board of Directors in its oversight of Constellation Energy's responsibility relating to: (i) the integrity of Constellation Energy's financial statements; (ii) compliance with legal and regulatory requirements; (iii) the independent registered public accountants qualifications and independence; (iv) the performance of Constellation Energy's internal auditors and independent registered public accountants; (v) risk assessment; and (vi) risk management. We operate pursuant to a charter that was last amended and restated by the Board in March 2005, a copy of which is attached hereto as Appendix A. Management of Constellation Energy is responsible for the preparation, presentation and integrity of Constellation Energy's financial statements, accounting and financial reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accountants are responsible for auditing Constellation Energy's financial statements in accordance with generally accepted auditing standards and expressing an opinion as to their conformity with generally accepted accounting principles. The independent registered public accountants have free access to the Audit Committee to discuss any matters they deem appropriate.

In the performance of our oversight function, we have considered and discussed the audited financial statements with management and the independent registered public accountants. We rely without independent verification on the information provided to us and on the representations made by management and the independent registered public accountants. We have discussed with the independent registered public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as currently in effect. Finally, we have received the written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect, and have considered whether the provision of non-audit services by the independent registered public accountants to Constellation Energy is compatible with maintaining the registered public accountants' independence and have discussed with the registered public accountants the registered public accountants' independence.

Based upon the reports and discussions described in this report, we recommended to the Board that the audited financial statements be included in Constellation Energy's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission.

James T. Brady, Chairman  
Yves C. de Balmann

Freeman A. Hrabowski, III  
Nancy Lampton

**Table of Contents****SECURITY OWNERSHIP*****Stock Ownership of Five Percent Beneficial Owners***

As of March 18, 2005, to the knowledge of the Board of Directors of Constellation Energy, the only persons beneficially owning more than 5% of Constellation Energy voting securities were:

<b>Name and address of beneficial owner</b>	<b>Title of class</b>	<b>Amount of beneficial ownership</b>	<b>Percent of class</b>
Barclays Bank PLC <sup>(1)</sup> 54 Lombard Street London, England EC3P 3AH	Common Stock	15,313,962	8.7%
AXA Financial, Inc. <sup>(2)</sup> 1290 Avenue of the Americas New York, New York 10104	Common Stock	12,816,459	7.3%

<sup>(1)</sup> According to Schedule 13G dated February 14, 2005, Barclays Bank PLC has disclosed that as of December 31, 2004, it, together with certain affiliated entities, directly or indirectly, had sole power to direct the vote of 13,530,369 shares and the sole power to direct the disposition of 15,313,962 shares.

<sup>(2)</sup> According to Schedule 13G dated February 14, 2005, AXA Financial, Inc. (AXA), a parent holding company, has disclosed that as of December 31, 2004, AXA, together with certain entities that control AXA, directly or indirectly, had sole power to direct the vote of 6,224,446 shares, shared power to vote 1,582,700 shares, sole power to direct the disposition of 12,801,494 shares, and shared power to direct the disposition of 14,965 shares. AXA Financial, Inc. is the parent of Alliance Capital Management L.P.



**Table of Contents****Stock Ownership of Directors and Executive Officers**

The following table shows as of March 3, 2005, the beneficial ownership of Constellation Energy common stock of each director, the named executive officers shown in the *2004 Summary Compensation Table* on page 16, and all directors and executive officers as a group. If the individual participates in Constellation Energy's long-term incentive plans, Shareholder Investment Plan, or Employee Savings Plan, those shares are included. Each of the individuals listed in the table beneficially owned less than 1% of Constellation Energy's outstanding shares of common stock. All directors and executive officers as a group beneficially owned approximately 1.7% of Constellation Energy's outstanding shares of common stock. None of them beneficially owned shares of any other class of our or any of our subsidiaries' equity securities. The address of each executive officer and director is c/o Constellation Energy Group, Inc., 750 East Pratt Street, Baltimore, MD 21202.

<u>Name</u>	<u>Beneficial Ownership (Shares of Common Stock)<sup>(1)</sup></u>	<u>Deferred Stock Units<sup>(2)</sup></u>
Douglas L. Becker	3,350	5,808
James T. Brady	3,512	2,779
Thomas F. Brady	152,269 <sup>(3)</sup>	6,485
Frank P. Bramble, Sr.	3,150	2,301
Thomas V. Brooks	479,277 <sup>(3)</sup>	27,687
Edward A. Crooke	83,555	-0-
James R. Curtiss	3,538	8,778
Yves C. de Balmann	2,050	3,584
Roger W. Gale	4,011	4,540
Freeman A. Hrabowski, III	3,661	7,643
Edward J. Kelly, III	4,258	-0-
Nancy Lampton	12,055 <sup>(4)</sup>	4,583
Robert J. Lawless	3,191	4,507
Lynn M. Martin	1,130	1,150
Mayo A. Shattuck III	1,043,031 <sup>(3)(5)</sup>	51,884
E. Follin Smith	468,949 <sup>(3)</sup>	-0-
Michael D. Sullivan	9,712	3,313
Michael J. Wallace	547,870 <sup>(3)</sup>	-0-
All Directors and Executive Officers as a group (23 individuals)	3,108,762 <sup>(3)</sup>	

(1) Amounts included in the Deferred Stock Units column are not included in this column.

(2) For non-employee directors, deferred stock units represent the deferral of retainers and restricted stock awards in deferred stock units, as further described in *Directors' Compensation* on page 12. For executive officers, deferred stock units represent fully vested restricted stock units that provide for the issuance of shares of common stock to the executive officer five years after the grant date and are subject to restrictions on transfer until that time.

(3) Includes the following shares that may be acquired upon exercise of stock options that are exercisable on or within 60 days after March 3, 2005: Mr. Brady, 129,197 shares; Mr. Brooks, 415,278 shares; Mr. Shattuck, 917,387 shares; Ms. Smith, 415,365 shares; Mr. Wallace, 414,534 shares; and all directors and executive officers as a group, 2,500,906 shares.

(4) Includes 5,000 shares held by Hardscuffle, Inc. Ms. Lampton disclaims beneficial ownership of such securities.

(5) Includes 10,000 shares held by a family foundation of which Mr. Shattuck serves as trustee.



**Table of Contents****EXECUTIVE COMPENSATION****2004 Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		Long-Term Incentive Plan Payouts	All Other Compensation (\$) <sup>(4)</sup>
		Salary (\$)	Bonus (\$) <sup>(1)</sup>	Other (\$)	Restricted			
					Awards (\$) <sup>(2)</sup>	Stock	Securities Underlying Options (#) <sup>(3)</sup>	
Mayo A. Shattuck III Chairman of the Board, President and Chief Executive Officer, Constellation Energy	2004	972,000	4,000,795	7,221(5)	-0-	277,160	-0-	30,154
	2003	900,000	2,600,780	6,585(5)	3,349,984(6)	-0-	-0-	44,077
	2002	900,000	900,900	-0-	2,212,491(7)	1,375,000	-0-	27,000
Thomas V. Brooks President, Constellation Energy	2004	250,008	4,250,795	1,400(5)	752,000(8)	103,930	-0-	-0-
	2003	250,008	3,715,780	1,006(5)	890,684(9)	95,950	-0-	-0-
	2002	250,008	2,335,900	-0-	-0-	250,000	291,373	-0-
Commodities Group, Inc. and Executive Vice President, Constellation Energy Michael J. Wallace <sup>(10)</sup>	2004	507,000	1,200,795	16,828(5)	-0-	62,360	-0-	13,681
	2003	500,000	1,125,780	5,620(5)	680,446(11)	59,620	-0-	-0-
	2002	498,077	1,000,900	150,603(12)	3,622,217(13)	354,000	-0-	11,458
E. Follin Smith Executive Vice President, Chief Financial Officer and Chief Administrative Officer, Constellation Energy	2004	473,000	1,500,795	19,680(5)	500,000(14)	69,290	-0-	14,224
	2003	375,000	1,125,780	7,276(5)	1,251,950(15)	63,340	-0-	40,097
	2002	370,833	750,900	-0-	-0-	256,000	290,543	11,125
Thomas F. Brady Executive Vice President, Corporate Strategy & Retail Competitive Supply, Constellation Energy	2004	315,000	650,000	1,104(5)	-0-	55,430	-0-	9,566
	2003	286,000	536,000	1,104(5)	341,681(16)	44,580	-0-	127,319
	2002	284,167	301,500	-0-	-0-	75,000	-0-	18,703

**Notes to 2004 Summary Compensation Table:**

<sup>(1)</sup> The amounts in the *Bonus* column include for certain executives the short-term incentive bonus under the Executive Annual Incentive Plan and a bonus under the disability insurance plan. A breakdown of the 2004 amounts in the *Bonus* column is shown below.

Name	Short-Term	Disability Insurance	Total (\$)
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	<b>Incentive Cash Bonus (\$)</b>	<b>Plan Bonus (\$)</b>	
M. A. Shattuck III	4,000,000	795	4,000,795
T. V. Brooks	4,250,000	795	4,250,795
M. J. Wallace	1,200,000	795	1,200,795
E. F. Smith	1,500,000	795	1,500,795
T. F. Brady	650,000	-0-	650,000

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(2) The following executives held shares of restricted stock listed below at December 31, 2004:

	<u>Shares (#)</u>	<u>Market Value (\$)</u>
M. A. Shattuck III	50,000	2,185,500
T. V. Brooks	5,695	248,928
M. J. Wallace	44,585	1,948,810
E. F. Smith	31,211	1,364,233
T. F. Brady	7,324	320,132

The fair market value for the shares held is based on the \$43.71 closing price per share for Constellation Energy common stock on December 31, 2004.

- (3) Options were granted to certain executives on February 26, 2004 under Constellation Energy's Executive Long-Term Incentive Plan and vest and become exercisable in three equal annual installments beginning February 26, 2005. See the *Option Tables* on page 20.
- (4) For 2004, the amounts in the *All Other Compensation* column represent Constellation Energy's matching contributions under its savings plans. For 2003, the amounts include for certain executives Constellation Energy's matching contributions under its savings plans, payout of accrued vacation and interest on the cumulative corporate funds used to pay prior year annual premiums on policies providing split dollar life insurance benefits (calculated at the Internal Revenue Service's blended rate) and proceeds related to the termination of Constellation Energy's split dollar program. For 2002, the amounts include for certain executives Constellation Energy's matching contributions under its savings plans and interest on the cumulative corporate funds used to pay prior year annual premiums on policies providing split dollar life insurance benefits (calculated at the Internal Revenue Service's blended rate).
- (5) Represents payroll taxes paid by Constellation Energy on behalf of the executive.
- (6) Represents the following:
- (i) 52,285 shares of service-based restricted stock that were granted to Mr. Shattuck on February 26, 2003 that vested one year after the grant date. The shares are valued at the fair market value on the date of grant (\$25.82 closing price per share for Constellation Energy common stock on February 26, 2003). Dividends on these shares are paid directly to Mr. Shattuck; and
  - (ii) 50,441 stock units that were granted to Mr. Shattuck on February 26, 2004, that are fully vested but are subject to transfer restriction until February 26, 2009. The units are valued at fair market value on the date of grant (\$39.65 closing price per share for Constellation Energy's common stock on February 26, 2004). Dividend equivalents on these units are accumulated and used to purchase additional units.
- (7) Represents 83,333 shares of service-based restricted stock that were granted to Mr. Shattuck on January 1, 2002 (33,333 shares vested one year after the grant date and 50,000 shares will vest five years after the grant date). The shares are valued at the fair market value on the date of grant (\$26.55 closing price per share for Constellation Energy common stock on December 31, 2001). Dividends on these shares are paid directly to Mr. Shattuck.
- (8) Represents 14,717 stock units that are fully vested but are subject to transfer restriction until February 24, 2010. The units are valued at fair market value on the date of grant (\$51.10 closing price per share for Constellation Energy common stock on February 24, 2005). Dividend equivalents on these units are accumulated and used to purchase additional units.
- (9) Represents the following:
- (i) 24,206 shares of service-based restricted stock that were granted to Mr. Brooks on February 26, 2003 that vested one year after the grant date. The shares are valued at the fair market value on the date of grant (\$25.82 closing price per share for Constellation Energy common stock on February 26, 2003). Dividends on these shares are paid directly to Mr. Brooks;
  - (ii) 5,420 shares of service- and performance-based restricted stock that were granted at target to Mr. Brooks on May 2, 2003 under Constellation Energy's Executive Long-Term Incentive Plan and that were subject to payout based on Constellation Energy's 2003 total shareholder return (TSR) relative to the 2003 TSR of Constellation Energy's peers. These target shares are valued at fair market value on the date of grant (\$28.77 closing price per share for Constellation Energy common stock on May 2, 2003). Shares paid out based on Constellation Energy's 2003 relative TSR performance vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares; and

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- (iii) 2,768 shares of service-based restricted stock that were granted to Mr. Brooks on February 26, 2004 based on Constellation Energy's 2003 relative TSR performance above target. These shares are valued at fair market value on the date of grant (\$39.65 closing price per share for Constellation Energy common stock on February 26, 2004). Shares vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares.
- (10) Mr. Wallace became an employee in January 2002.
- (11) Represents the following:
  - (i) 13,880 shares of service- and performance-based restricted stock that were granted at target to Mr. Wallace on May 2, 2003 under Constellation Energy's Executive Long-Term Incentive Plan and that were subject to payout based on Constellation Energy's 2003 TSR relative to the 2003 TSR of Constellation Energy's peers. These target shares are valued at fair market value on the date of grant (\$28.77 closing price per share for Constellation Energy common stock on May 2, 2003). Shares paid out based on Constellation Energy's 2003 relative TSR performance vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares; and
  - (ii) 7,090 shares of service-based restricted stock that were granted to Mr. Wallace on February 26, 2004 based on Constellation Energy's 2003 relative TSR performance above target. These shares are valued at fair market value on the date of grant (\$39.65 closing price per share for Constellation Energy common stock on February 26, 2004). Shares vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares.
- (12) Represents \$120,836 for relocation expenses, \$17,410 for car and parking expenses, and \$12,357 for personal legal expenses.
- (13) Represents 136,430 shares of service-based restricted stock that were granted to Mr. Wallace on January 1, 2002 (48,810 shares vested on January 1, 2003, 28,810 shares vested on January 1, 2004, 28,810 shares vested on January 1, 2005, and 30,000 shares will vest on January 1, 2007). The shares are valued at the fair market value on the date of grant (\$26.55 closing price per share for Constellation Energy common stock on December 31, 2001). Dividends on these shares are paid directly to Mr. Wallace.
- (14) Represents 12,610 shares of service-based restricted stock that were granted to Ms. Smith on February 26, 2004 that vest ratably over three years beginning February 26, 2005. The shares are valued at the fair market value on the date of grant (\$39.65 closing price per share for Constellation Energy common stock on February 26, 2004). Dividends on unvested shares are accumulated and used to purchase additional shares.
- (15) Represents the following:
  - (i) 13,555 shares of service-based restricted stock that were granted to Ms. Smith on February 26, 2003 that vested one year after the grant date. The shares are valued at the fair market value on the date of grant (\$25.82 closing price per share for Constellation Energy common stock on February 26, 2003). Dividends on these shares are paid directly to Ms. Smith;
  - (ii) 13,020 shares of service- and performance-based restricted stock that were granted at target to Ms. Smith on May 2, 2003 under Constellation Energy's Executive Long-Term Incentive Plan and that were subject to payout based on Constellation Energy's 2003 TSR relative to the 2003 TSR of Constellation Energy's peers. These target shares are valued at fair market value on the date of grant (\$28.77 closing price per share for Constellation Energy common stock on May 2, 2003). Shares paid out based on Constellation Energy's 2003 relative TSR performance vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares; and
  - (iii) 12,739 shares of service-based restricted stock that were granted to Ms. Smith on February 26, 2004 and 561 shares of service-based restricted stock that were granted to Ms. Smith on March 25, 2004, based on Constellation Energy's 2003 relative TSR performance above target. These shares are valued at fair market value on the date of grant (closing price per share for Constellation Energy common stock on February 26, 2004 of \$39.65 and on March 25, 2004 of \$39.70). Shares vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares.

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<sup>(16)</sup> Represents the following:

- (i) 6,970 shares of service- and performance-based restricted stock that were granted at target to Mr. Brady on May 2, 2003 under Constellation Energy's Executive Long-Term Incentive Plan and that were subject to payout based on Constellation Energy's 2003 TSR relative to the 2003 TSR of Constellation Energy's peers. These target shares are valued at fair market value on the date of grant (\$28.77 closing price per share for Constellation Energy common stock on May 2, 2003). Shares paid out based on Constellation Energy's 2003 relative TSR performance vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares; and
- (ii) 3,560 shares of service-based restricted stock that were granted to Mr. Brady on February 26, 2004 based on Constellation Energy's 2003 relative TSR performance above target. These shares are valued at fair market value on the date of grant (\$39.65 closing price per share for Constellation Energy common stock on February 26, 2004). Shares vest ratably over three years beginning May 2, 2004. Dividends on unvested shares are accumulated and used to purchase additional shares.

**Table of Contents****Option Grant Table**

The following table shows the number of options to purchase Constellation Energy common stock that was granted by Constellation Energy during 2004 to each person named in the 2004 Summary Compensation Table on page 16.

**STOCK OPTION GRANTS IN 2004****Individual Grants**

Name	Number of Securities Underlying Options Granted (#) <sup>(1)</sup>	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	Grant Date Present Value (\$)
M. A. Shattuck III	277,160	16.9	39.63	2/26/14	2,001,095 <sup>(2)</sup>
T. V. Brooks	103,930	6.3	39.63	2/26/14	750,375 <sup>(2)</sup>
M. J. Wallace	62,360	3.8	39.63	2/26/14	450,239 <sup>(2)</sup>
E. F. Smith	69,290	4.2	39.63	2/26/14	500,274 <sup>(2)</sup>
T. F. Brady	55,430	3.4	39.63	2/26/14	400,205 <sup>(2)</sup>

<sup>(1)</sup> Represents an option grant made on February 26, 2004 pursuant to Constellation Energy's Executive Long-Term Incentive Plan.

The option grant vests and becomes exercisable in three equal annual installments beginning on February 26, 2005.

<sup>(2)</sup> Based on Black-Scholes option pricing model. The following assumptions were used in calculating the Grant Date Present Value:

Grant Date	Dividend Yield	Risk-Free Rate of Return	Adjustment for Risk of Forfeiture	Expected Volatility	Option Term	Expected Life	Black-Scholes Value
2/26/04	3.00%	3.10%	3.00%	23.77%	10 yrs.	5 yrs.	\$ 7.22

**Aggregated Option Exercises and Year End Option Values****AGGREGATED OPTION EXERCISES IN 2004****AND OPTION VALUES AT DECEMBER 31, 2004**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2004 Exercisable/Unexercisable (#)	Value of Unexercised In-the-Money Options
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at December 31, 2004  
Exercisable/Unexercisable (\$)<sup>(1)</sup>

M. A. Shattuck III	-0-	-0-	550,000/1,102,160	8,679,000/14,149,313
T. V. Brooks	-0-	-0-	348,651/251,229	5,354,400/2,418,790
M. J. Wallace	-0-	-0-	373,874/102,106	5,882,243/846,644
E. F. Smith	26,177	416,016	384,270/128,183	6,288,765/1,120,208
T. F. Brady	-0-	-0-	135,860/110,150	1,518,074/981,482

<sup>(1)</sup> Based on \$43.71, the closing price per share of Constellation Energy common stock on December 31, 2004.

**Table of Contents****Long-Term Incentive Plan Awards Table**

Target awards of performance units were made for the three-year performance period that began January 1, 2004 pursuant to Constellation Energy's Executive Long-Term Incentive Plan. Each performance unit is equivalent to one dollar (\$1.00). The value of the performance unit awards is dependent on Constellation Energy's total shareholder return for the three-year performance period relative to the total shareholder return of either investment grade large- and mid-cap companies in the Dow Jones Electricity and Multiutilities Indexes or investment grade companies in the S&P 500 Index. The performance measures used to value the performance unit awards are discussed in additional detail in the *Report of Compensation Committee on Executive Compensation* on page 28. At the end of the three-year performance period, awards will be paid out 50% in cash and 50% in cash or equity at the discretion of the Compensation Committee.

The following table reports potential payouts of performance units awarded to the persons named in the *2004 Summary Compensation Table* on page 16. The threshold, target and maximum awards are equal to 50%, 100% and 200%, respectively, of the performance unit target award, for the Dow Jones Electricity and Multiutilities Indexes measure and 50%, 75% and 150%, respectively, of the performance unit target award, for the S&P 500 Index measure. Payouts are interpolated between award levels.

Name	Number of Shares,  Units or Other	Performance or Other Period Until Maturity or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans					
			Dow Jones Electricity and Multiutilities Indexes Measure			S&P 500 Index Measure		
			Threshold (#)	Target (#)	Maximum (#)	Threshold (#)	Target (#)	Maximum (#)
M.A. Shattuck III	2,000,000	1/1/04 to 12/31/06	1,000,000	2,000,000	4,000,000	1,000,000	1,500,000	3,000,000
T. V. Brooks	750,000	1/1/04 to 12/31/06	375,000	750,000	1,500,000	375,000	562,500	1,125,000
M. J. Wallace	450,000	1/1/04 to 12/31/06	225,000	450,000	900,000	225,000	337,500	675,000
E. F. Smith	500,000	1/1/04 to 12/31/06	250,000	500,000	1,000,000	250,000	375,000	750,000
T. F. Brady	400,000	1/1/04 to 12/31/06	200,000	400,000	800,000	200,000	300,000	600,000

**Pension Benefits**

Mr. Shattuck, Mr. Wallace and Ms. Smith participate in the Senior Executive Supplemental Plan. Under the plan, at retirement a participant must be at least age 55 with 10 or more years of vesting service or at least age 62 with five or more years of vesting service to be entitled to any benefits. Benefits paid before age 62 are reduced for early receipt. Mr. Shattuck's normal retirement annuity benefit under the plan, which is available at age 62 with five or more years of vesting service, will be computed at 60% of covered earnings. At December 31, 2004, based on his current age of 50 and three years and two months of vesting service, Mr. Shattuck was not eligible for benefits under the plan as he did not meet the age and service requirements. Normal retirement annuity benefits available under the plan at age 62 for Mr. Wallace and Ms. Smith accrue at 5.5% per year of benefit service, up to a maximum annuity benefit of 55% of covered earnings. At December 31, 2004, based on her current age of 45 and three years and seven months of vesting service, Ms. Smith was not eligible to receive benefits under the plan as she did not meet the age and service requirements. As of that date, she has accrued benefits equal to 19.7% of covered earnings, which would be available at age 62 if she meets the service requirement. When he was hired in January 2002, Mr. Wallace was credited with seven years of additional vesting service under the plan, so that, based on his current age of 57 and 10 years of vesting service, as of February 1, 2005 he is eligible to retire and receive an annuity benefit equal to 16.5% of covered earnings (based on his three years of benefit service), reduced for early receipt.



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Mr. Wallace's accrued benefit available at age 62 also is equal to 16.5% of covered earnings. Covered earnings are equal to the average of the highest two of the last five years' base pay amounts plus the average of the highest two of the last five years' annual incentive award amounts. Benefits payable under the plan are paid in periodic installments unless a participant elects a lump sum. Plan participants are entitled to a 50% survivor annuity benefit at no cost. The benefits computed under the Senior Executive Supplemental Plan are offset by benefits under the qualified employee pension plan applicable to most employees but are not offset for Social Security.

Mr. Brady's normal retirement annuity benefit which is available at age 62 under the Supplemental Pension Plan will be computed at 55% of covered earnings. Covered earnings are equal to the prior year base salary plus average annual incentive (highest two of the last five years' annual incentive award percentages multiplied by base pay at the end of the prior year). Benefits accrue under the plan based on years of service ranges, and for Mr. Brady and other participants with 30 or more years of service, the accrued benefit is 55%. Under the plan, at retirement a participant must be at least age 55 with 10 or more years of service or at least age 62 with one or more years of service. Benefits paid before age 62 are reduced for early receipt. At December 31, 2004, Mr. Brady is eligible to receive an annuity benefit equal to 55% of covered earnings, reduced for early receipt. Benefits payable under the plan are paid in periodic installments unless a participant elects a lump sum. Plan participants are entitled to a 50% survivor annuity benefit at no cost. The benefits computed under the Supplemental Pension Plan will be offset by the benefit under the qualified employee pension plan applicable to most employees but will not be offset by Social Security.

Vesting of accrued benefits under the Senior Executive Supplemental Plan and the Supplemental Pension Plan accelerates when any of these events occur: employment termination, demotion or loss of benefit eligibility without cause; a change of control of Constellation Energy followed within two years by the executive's demotion, employment termination or loss of benefit eligibility; or reduction of previously accrued benefits. As a result of such accelerated vesting, the executive would be entitled to a lump sum payout of the vested amount from the applicable pension plan after employment termination.

Mr. Brooks' normal retirement lump sum benefit which is available at age 65 under the Benefits Restoration Plan accrues in accordance with the benefit formula of the qualified employee pension plan but without regard to Internal Revenue Service limitations. Under the plan, a lump sum benefit is computed based on covered earnings multiplied by a total credit percentage. Covered earnings are equal to the average of the highest three of the last five years' base pay plus annual incentive. The total credit percentage is equal to the sum of the credit percentages based on the following formula: 5% per year of service through age 39, 10% per year of service from age 40 to age 49, and 15% per year of service after age 49. Mr. Brooks' lump sum benefit under the plan at normal retirement age 65 will total 341% of his final average salary and bonus, and will be offset by his benefit under the qualified employee pension plan applicable to most employees but will not be offset by Social Security. No benefits are available under the plan until a participant has at least five years of service. At December 31, 2004, Mr. Brooks was age 42 and had three years and nine months of service. Benefits payable under the plan are paid in periodic installments unless a participant elects a lump sum.

If Mr. Shattuck or Ms. Smith terminate employment after five years of service but prior to meeting the eligibility requirements for benefits under the Senior Executive Supplemental Plan, (i.e., before reaching age 55 with 10 or more years of vesting service or age 62 with five or more years of vesting service), they would be eligible to receive benefits under the Benefits Restoration Plan

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calculated in the same manner as described above with respect to Mr. Brooks. At December 31, 2004, Mr. Shattuck was age 50 and had three years and two months of service and Ms. Smith was age 45 and had three years and seven months of service.

Under the Supplemental Benefits Plan, each executive is also entitled to personal financial, tax and estate planning benefits that continue during the year of retirement plus the next two calendar years. If a retired executive continues to serve as a member of the Constellation Energy Board of Directors, the personal financial, tax and estate planning benefit period extends until Board membership ceases.

Covered earnings used to compute pension benefits for the individuals named in the *2004 Summary Compensation Table* on page 16 as of December 31, 2004 were as follows:

M. A. Shattuck III	\$	4,241,670
T. V. Brooks		2,775,010
M. J. Wallace		1,583,750
E. F. Smith		1,739,580
T. F. Brady		651,463

Constellation Energy sponsors the Nonqualified Deferred Compensation Plan that provides the opportunity for eligible employees including the individuals named in the *2004 Summary Compensation Table* on page 16 to defer certain compensation including base salary and annual incentives. Under the plan, Constellation Energy matches base salary deferral amounts for salary over the Internal Revenue Service compensation limit (applicable to qualified employee 401(k) plans) using the same matching formula as under the Constellation Energy qualified employee 401(k) plan (match of 50% up to the first 6% of employee salary deferral). Nonqualified Deferred Compensation Plan participants may elect to invest their plan account balances in investment options that substantially mirror the qualified employee 401(k) plan options. Plan participants do not pay taxes on amounts deferred, company contributions, or earnings thereon, until amounts are distributed from the Nonqualified Deferred Compensation Plan. An executive's benefits under the Nonqualified Deferred Compensation Plan always are fully vested and are payable after employment termination.

Constellation Energy previously funded a rabbi trust to secure benefits accrued through December 31, 2002 under the Senior Executive Supplemental Plan and the Supplemental Pension Plan. Constellation Energy's last contribution to the trust was made during 2003. Constellation Energy currently funds a rabbi trust for the Nonqualified Deferred Compensation Plan. Contributions to the trust include the amount of participant deferred compensation and employer matching contribution. These rabbi trusts do not increase the amount of supplemental pension benefits or deferred compensation.

A copy of the following Constellation Energy plans may be found in Constellation Energy's reports as follows: Senior Executive Supplemental Plan Exhibit 10(e) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004; Supplemental Pension Plan Exhibit 10(d) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004; Benefits Restoration Plan Exhibit 10(m) to the Annual Report on Form 10-K for the year ended December 31, 2001; Supplemental Benefits Plan Exhibit 10(p) to the Annual Report on Form 10-K for the year ended December 31, 2001; and Nonqualified Deferred Compensation Plan Exhibit 10(c) to the Annual Report on Form 10-K for the year ended December 31, 2002.



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### ***Severance, Employment and Other Agreements***

Constellation Energy has severance agreements with Messrs. Shattuck, Wallace and Brady and Ms. Smith. The severance agreements provide benefits if (1) there is a change in control of Constellation Energy, and (2) within two years of the change in control, the executive's employment is terminated without cause, or the executive resigns for good reason. The executives are required to release Constellation Energy and its subsidiaries from legal claims as a condition to receiving the benefits.

The severance agreements provide benefits equal to three times the sum of (1) the executive's annual base salary and (2) the average of the executive's two highest annual incentive awards (deemed at target for recently hired executives) in the last five years. The agreements also provide for a tax gross-up payment to cover excise taxes (including excise taxes paid on the tax gross-up payment) that the executive may have to pay as a result of receiving payments under the severance agreement. Payment is made in a cash lump sum after employment ceases.

The agreements also provide enhanced retirement benefits, computed assuming the executive: (1) has service equal to actual service plus three years of deemed service (Mr. Wallace's agreement provides for a benefit of at least 40% of covered earnings); and (2) has satisfied the minimum age and service eligibility requirements for benefits under the applicable supplemental retirement plan. If Mr. Wallace is otherwise eligible to retire under the terms of the Senior Executive Supplemental Plan, his agreement also provides retirement benefits computed without any penalty for early retirement.

For each executive, the agreement further provides for the payment of the present value of the employer subsidy for active employee medical and dental benefits for three years. Also, for an executive who is at least age 55 with seven or more years of service, the agreement provides for the payment of the present value of the employer subsidy for medical and dental benefits for retired employees (based on the deemed age of 65 and the greater of actual or 20 years of service, less any actual retiree medical subsidy). Each executive is also entitled to 60 days of outplacement services at a cost not to exceed \$50,000.

Constellation Energy also has a severance agreement with Mr. Brooks. The agreement provides a severance payment if (1) there is a change in control of Constellation Energy, and (2) within two years of the change in control, Mr. Brooks' employment is terminated without cause, or Mr. Brooks resigns for good reason. Mr. Brooks is required to release Constellation Energy and its subsidiaries from legal claims as a condition to receiving a severance payment. The agreement provides a payment equal to the lesser of (1) two times the sum of (a) Mr. Brooks' annual base salary and (b) the average of his two highest annual incentive awards paid in the last five years or (2) \$5,000,000. Payment is made in a cash lump sum after employment ceases.

Upon a change of control of Constellation Energy, each executive is also entitled to an accelerated payout of restricted stock, restricted stock units and performance units and acceleration of the option exercise period in accordance with the terms of the Executive Long-Term Incentive Plan. Also, the executive is entitled to an accelerated annual incentive payment, computed assuming maximum performance achievement and pro-rated for service during the performance period, in the event of a change of control of Constellation Energy and termination of the executive's employment within two years thereafter.

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In July 2004, Ms. Smith entered into an employment agreement with Constellation Energy that is effective until July 1, 2007. Each July 1, beginning July 1, 2005, the agreement will be extended automatically for an additional one year unless one party provides written notice to the other not to so extend. Under the terms of the agreement, Ms. Smith serves as Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Constellation Energy at a minimum annual base salary of \$500,000. During the term of the agreement, Ms. Smith's annual incentive opportunity target will be 100% of annual base salary, with a minimum annual opportunity of 0% of annual base salary and a maximum annual opportunity of 300% of annual base salary, based on Constellation Energy and individual performance. The agreement also provides for an annual grant of a long-term incentive opportunity with a value at grant of \$1,000,000 and an annual grant of service-based restricted stock with a value of \$500,000 with three-year ratable vesting. In the event of termination of Ms. Smith's employment by Constellation Energy without cause or Ms. Smith's resignation from employment with Constellation Energy for good reason, Ms. Smith will receive (a) the portion of her annual base salary that has been earned but not yet paid, (b) a pro-rated annual incentive award paid at target, (c) a lump sum cash payment of \$4,500,000, (d) accelerated vesting of non-performance-based equity awards, (e) payment of any performance-based equity award earned by Ms. Smith under a long-term incentive plan based on Constellation Energy's performance when such awards are payable to other participants, (f) health and dental benefits under Constellation Energy's employee plans or substantially equivalent benefits for the remainder of the then current term of the employment agreement or, if later, two years from the date of termination and (g) 60 days of outplacement services at a cost not to exceed \$50,000. Ms. Smith is required to release Constellation Energy and its subsidiaries from legal claims as a condition to receiving the benefits.

Ms. Smith's employment agreement supersedes any prior agreements between her and Constellation Energy except the change in control severance agreement described above. In the event Ms. Smith is entitled to payments under both the employment agreement and the change in control severance agreement, she will receive payments and benefits under the agreement most beneficial to her.



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**COMMON STOCK PERFORMANCE GRAPHS**

***5-Year Performance Graph***

The following graph assumes \$100 was invested on December 31, 1999 in Constellation Energy common stock and compares the share price performance with the S&P 500 Index and the Dow Jones Electric Utilities Index. Total return is computed assuming reinvestment of dividends.

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***1-Year Performance Graph***

The following graph assumes \$100 was invested on December 31, 2003 in Constellation Energy common stock and compares the share price performance with the S&P 500 Index and the Dow Jones Electric Utilities Index. Total return is computed assuming reinvestment of dividends.

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**REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION**

***Compensation Committee***

The Compensation Committee is responsible for executive compensation policies. We also approve all compensation and benefit plans, specific salary amounts, and other compensation awards for individual executive officers. All of our Committee members are independent directors.

***Philosophy***

We design compensation policies to encourage executives to manage Constellation Energy in the best long-term interests of shareholders and to enable Constellation Energy to attract and retain highly motivated executives with outstanding skills and who are best suited to drive its success over the long term. The Committee has retained an outside executive compensation consultant as our advisor in the areas of executive compensation and benefits.

During 2004, the Committee reviewed Constellation Energy's comparative labor markets for the purposes of establishing executive compensation and benefits. The objective of the review was to identify relevant labor markets that more closely correspond with Constellation Energy's executive hiring experience, and to identify peer groups that include companies whose executives have similar roles and responsibilities and are representative of industries relevant to Constellation Energy's businesses. As a result of this review, peer groups were identified that are reflective of the industries and labor markets in which Constellation Energy competes for executives, and that include an enhanced focus on general industry companies of similar size to Constellation Energy.

The elements of executive compensation are:

- base salary,
- short-term incentive awards, and
- long-term incentive awards.

The Committee's philosophy is that base salary should be linked to the median level of the relevant labor market. The aggregate of an executive's base salary and short-term incentive awards should approximate the median level of the relevant labor market for average performance, and the 75<sup>th</sup> percentile for superior performance. Long-term incentive awards for superior performance should bring total compensation to approximately the 75<sup>th</sup> percentile of the relevant labor market. Under this approach, a high proportion of executive compensation is at risk in the form of short- and long-term incentive opportunities. As described below, staff and business unit and individual performance are among the criteria we use in determining base salary, and are key components in determining both short-term and long-term incentive awards. Also, stock-based compensation such as stock options and restricted stock link a significant portion of long-term compensation to stock price appreciation realized by all Constellation Energy shareholders.

In addition, executives receive various company-provided perquisites. The Committee reviewed the type and level of perquisites provided to executive officers, and determined that the perquisites provided during 2004 were reasonable. During 2004, the incremental cost to Constellation

Energy of the perquisites provided to any executive officer did not exceed \$50,000.

The Committee has also established stock ownership guidelines for Constellation Energy's executives. The guidelines seek to align the interests of these executives with the interests of shareholders, by encouraging long-term value creation by requiring each executive to acquire holdings

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of Constellation Energy stock with a value equal to established multiples of base salary. For those executives who are members of Constellation Energy's executive management committee, the stock ownership guidelines are:

Chief Executive Officer	7 times base salary
Executive Vice Presidents (except Mr. Brooks)	5 times base salary
Senior Vice Presidents	3 times base salary

Under the guidelines, Mr. Brooks is required to acquire holdings of Constellation Energy stock with a value equal to the average of his base salary plus short-term incentive awards plus long-term incentive awards over the prior three years.

***Annual Cash Compensation***

*Base Salary.* We used compensation data developed by well recognized compensation consulting firms, the Committee's compensation philosophy and our assessment of individual, staff and business unit performance to determine base salary increases for executives in 2004. Effective March 2004, Mr. Shattuck's annual base salary was increased from \$900,000 to \$1 million.

*Short-Term Incentives.* Bonus payments under the 2002 Executive Annual Incentive Plan approved by shareholders in 2002 (the Executive Annual Incentive Plan) for Mr. Shattuck and other executives represent the short-term incentive component of executive compensation. The Committee considered bonuses for Mr. Shattuck and the other executives based on achievement of corporate financial and business plan objectives, and individual performance.

At the beginning of 2004, the Committee determined the appropriate short-term incentive amount at target performance for each executive except Mr. Brooks. The Committee then established annual incentive performance metrics for different 2004 adjusted earnings per share ranges and for each level of performance, the Committee also established the maximum annual incentive award opportunity available to each executive including Mr. Brooks.

Constellation Energy's 2004 adjusted earnings per share was in excess of the target performance level established by the Committee at the beginning of the year (and well in excess of Constellation Energy's 2003 adjusted earnings per share). In determining the actual bonus payments to be made to each executive, the Committee also assessed individual and business and staff unit performance against the pre-established quantitative and qualitative measures, and also took into account the following accomplishments: Constellation Energy's superior earnings growth rate compared to comparable companies; the continued strengthening of Constellation Energy's balance sheet by reducing Constellation Energy's debt-to-capitalization ratio; Constellation Energy's competitive supply business not only held its leading position as the number one supplier of energy to commercial and industrial customers in competitive markets, but Constellation Energy also established a position as the number one supplier of wholesale energy in the competitive markets; the commodities business built an international coal procurement business and a gas business; the acquisition of the Ginna Nuclear Power Plant was completed ahead of schedule; Calvert Cliffs Nuclear Power Plant generated megawatt hours higher than any year in the plant's history and the plant set an industry record for fastest time to replace a low-pressure turbine rotor; Nine Mile Point Nuclear Power Plant achieved 93.1% capacity, which is the highest in that plant's history; and BGE earned top-quartile customer satisfaction for the third consecutive year in the J.D. Power and Associates Electric Utility Residential and Business Customer Satisfaction Studies Eastern Region. Based on this review, the Committee authorized bonus payments for 2004 performance to Mr. Shattuck and the other named executives, as shown in the column in the 2004 Summary Compensation Table on page 16 titled *Annual Compensation Bonus*.



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### ***Long-Term Incentives***

The Constellation Energy Executive Long-Term Incentive Plan allows various types of awards that are linked to corporate performance, including stock options as well as restricted stock, restricted stock units and performance units subject to performance-based contingencies. Outstanding grants under the Plan include performance-based restricted stock, restricted stock units, performance units and stock options. The value of these long-term incentive grants generally correlates to future performance, as performance-based restricted stock and performance unit grants are generally subject to forfeiture if performance criteria are not satisfied and stock options provide value to the executive only to the extent the market price of Constellation Energy common stock appreciates over the option term. Most grants are subject to forfeiture if the executive's employment terminates for certain reasons during the applicable performance period.

*2004 Grants.* During 2004, the Committee made grants to Mr. Shattuck and certain other executives under the Executive Long-Term Incentive Plan at levels designed to provide appropriate long-term performance incentives. The amount of the grants made to each executive was determined taking into account market compensation data, corporate, business and staff unit and individual performance. The grants consisted of the following:

50% of the grant value was delivered in non-qualified stock options with ratable vesting over three years. Awards become exercisable in three equal annual installments on February 26, 2005, February 26, 2006 and February 26, 2007. These options provide a reward for stock price appreciation over a long-term period of up to 10 years, seeking to align the interests of the executives with those of shareholders. The options granted are shown in the column of the *2004 Summary Compensation Table* on page 16 titled *Long-Term Compensation Securities Underlying Options* and in the *Option Tables* on page 20.

The remaining 50% of the grant value was delivered in the form of performance units that vest at the end of the three-year performance period. The performance units were granted at target and are paid out only if Constellation Energy meets performance objectives established by the Committee. The primary performance criteria is Constellation Energy's 2004-2006 total shareholder return (TSR) relative to investment grade large- and mid-cap companies in the combined Dow Jones Electricity and Multiutilities Indexes. If Constellation Energy's TSR is below a minimum threshold during the performance period, then Constellation Energy's TSR will be measured against the TSR of investment grade companies in the S&P 500 Index. The potential payouts of performance units to Mr. Shattuck and certain other executives under the primary and secondary performance measures are shown in the *Long-Term Incentive Plan Awards Table* on page 21.

Also in 2004, the Committee made a grant of service-based restricted stock to an executive officer, which vests ratably over three years. Dividends are automatically reinvested.

### ***Policy Concerning \$1 Million Deduction Limitation***

Section 162(m) of the Internal Revenue Code limits to \$1 million the tax deduction of public companies for compensation paid to their chief executive officers and the four other most highly compensated executive officers. There are several exemptions to Section 162(m), including one for qualified performance-based compensation. To be qualified, performance-based compensation must meet various requirements, including shareholder approval. Our Committee's general intent is to design and administer the executive compensation programs in a manner that will preserve the deductibility of compensation payments to executive officers. However, this goal is secondary in





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importance to achievement of our compensation philosophy discussed earlier in this report, including managing Constellation Energy in the best long-term interests of shareholders. We previously adopted, and our shareholders approved, the Executive Annual Incentive Plan and the Executive Long-Term Incentive Plan in order to meet the performance-based qualification under the Internal Revenue Code. While we adopted the above-mentioned plans, we feel it is appropriate to maintain the flexibility of our Committee to exercise judgment in assessing an executive's performance in order to achieve the desired compensation objectives, which may result in certain nondeductible compensation payments from time to time.

Robert J. Lawless, Chairman  
Douglas L. Becker  
Frank P. Bramble, Sr.

Edward J. Kelly, III  
Lynn M. Martin  
Michael D. Sullivan

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**PROPOSAL NO. 2    RATIFICATION OF**

**APPOINTMENT OF PRICEWATERHOUSECOOPERS**

**LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2005**

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THIS PROPOSAL. IF NOT OTHERWISE SPECIFIED, PROXIES WILL BE VOTED FOR APPROVAL OF THIS PROPOSAL.**

The Audit Committee has appointed PricewaterhouseCoopers LLP (PwC) as the independent registered public accountants of Constellation Energy for the fiscal year ending December 31, 2005. PwC has been Constellation Energy's independent auditors since 1941. A member of PwC will be at the annual meeting and will have the opportunity to make a statement and answer appropriate questions. If the shareholders fail to ratify PwC as the independent registered public accountants, the Audit Committee will reconsider its selection.

Below is a breakdown of fees paid to PwC in 2003 and 2004:

	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>All Other Fees</u>
2003	\$3,430,996	\$2,279,095	\$126,803	\$0
2004	\$7,752,473	\$1,081,097	\$72,977	\$0

The Audit Fees category for 2004 includes approximately \$3.9 million of fees paid to PwC in connection with its performance of Sarbanes-Oxley Section 404 attestation procedures. The Audit-Related Fees category includes approximately \$1.7 million and \$0.8 million for 2003 and 2004, respectively, of advisory services with respect to preparing for Sarbanes-Oxley Act Section 404 attestation. The Audit-Related Fees category for 2003 and 2004 also includes fees paid in connection with other services related to our annual audit and interim reviews including performing internal control reviews. The Tax Fees category consists, for 2003 and 2004, of fees paid in connection with executive tax services.

The Audit Committee is responsible for the appointment, compensation, and oversight of the work of Constellation Energy's independent registered public accountants. As part of this responsibility, the Audit Committee has adopted an Audit and Non-Audit Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent registered public accountants must be approved. All services to be provided by the independent registered public accountants as well as the related fees must be pre-approved by the Audit Committee and all such services and fees were pre-approved in 2003 and 2004. The Chairman of the Audit Committee has been delegated the authority to specifically pre-approve services. In no event may pre-approval authority be delegated to Constellation Energy management. In the course of carrying out its responsibilities, the Audit Committee considers whether any services proposed to be performed by the independent registered public accountants are consistent with the rules promulgated by the Securities and Exchange Commission on auditor independence. The Audit Committee also considers the independent registered public accountants' familiarity with Constellation Energy's business, people, culture, accounting systems, risk profile and other factors, and whether the service might enhance Constellation Energy's ability to manage or control risk or improve audit quality.

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This proposal will not be approved unless it receives the affirmative votes of the holders of a majority of the votes cast on such proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal. If not otherwise specified, proxies will be voted ***FOR*** approval of the proposal.

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**SUBMISSION OF SHAREHOLDER PROPOSALS  
FOR NEXT YEAR**

For inclusion in next year's Proxy Statement. Any Constellation Energy shareholder who wants to include a proposal in the proxy statement for the 2006 annual meeting must deliver it so we receive it by December 14, 2005.

For presentation at the next Annual Meeting. Under our current Bylaws, any Constellation Energy shareholder who wants to propose a nominee for election as a director or to present a proposal at the 2006 annual meeting must deliver it so we receive it by January 28, 2006. Nominations and proposals not received by this date may not be presented at the annual meeting.

Any proposals must be sent, in writing, to the Corporate Secretary, Constellation Energy Group, Inc., 750 East Pratt Street, 18<sup>th</sup> Floor, Baltimore, MD 21202. Proposals will not be accepted by facsimile.

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**Appendix A**

**CHARTER OF  
THE AUDIT COMMITTEE OF  
CONSTELLATION ENERGY GROUP, INC.**

**Membership**

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Constellation Energy Group, Inc. (the "Company") shall consist of at least three directors. The Board shall appoint each Committee member. In addition to meeting the criteria for Board membership set forth in the Company's Corporate Governance Guidelines, each Committee member shall be independent as determined pursuant to the Corporate Governance Guidelines and shall meet such requirements, if any, as mandated by the New York Stock Exchange and relevant listing standards and in accordance with the requirements of applicable laws, rules and regulations. Each member of the Committee must be financially literate, as such qualification is interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the Committee. In addition, at least one member of the Committee shall have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgment and qualify as an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission.

Committee members shall hold office for one year and until their respective successors are elected and qualified, or until their earlier resignation, removal or death. The Board shall fill all vacancies and have the right to remove members, as specified in the Company's bylaws and/or Charter. The Board shall designate one of the members to serve as Chairman of the Committee.

**Meetings/Reports**

The Committee shall meet periodically, as deemed necessary by the Chairman of the Committee, but in no event less frequently than once per calendar quarter. The Chairman (or in the Chairman's absence, another member of the Committee designated by the Chairman) shall call and preside over meetings of the Committee. The Secretary of the Company (or in the Secretary's absence, another individual designated by the Chairman or the Secretary) shall serve as Secretary of the Committee. The Secretary shall provide notice personally or by mail, telephone, facsimile or electronically to each member of the Committee of all meetings, not later than 12:00 p.m. (Eastern Standard Time) on the day immediately preceding the scheduled meeting date, unless those members who are not able to attend such meeting waive in writing (either in advance or following such meeting) the right to such notice. Attendance at any meeting by a member shall also be deemed to constitute a waiver of the above notice requirement unless at the meeting such member clearly announces his or her objection to the failure to provide such advance notice and such member does not otherwise attend or participate in such meeting. A majority of the members of the Committee shall constitute a quorum for the transaction of business. The Secretary shall keep written minutes of the proceedings and actions of the Committee.

Periodically, the Committee will meet privately in separate executive sessions, with each of management, the internal auditors and the independent auditor.



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The Committee shall periodically report on its activities to the Board and make such recommendations and findings as it deems appropriate. Each Committee member shall perform an annual evaluation of the Committee, as administered by the Nominating and Corporate Governance Committee.

## **Purpose**

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibility relating to: (i) the integrity of the Company's financial statements; (ii) compliance with legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; (iv) the performance of the Company's internal auditors and independent auditor; (v) risk assessment; and (vi) risk management. In addition, the Committee shall prepare the Committee report required by the proxy rules of the Securities and Exchange Commission (SEC) to be included in the Company's proxy statement. The Committee is responsible for maintaining free and open communication between the Committee, the independent auditor, the internal auditors, and management of the Company and resolving any disagreements between management and the independent auditor regarding financial reporting.

In discharging its responsibilities, the Committee is not itself responsible for the planning or the performance of audits, or for any determination that the Company's financial statements are complete and accurate, or prepared in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company, and it is the responsibility of the Company's independent auditor to audit the Company's financial statements.

The Committee, without having to seek Board or management approval, has the authority to conduct or authorize investigations into any matters within its scope of responsibilities, with the power to retain, at the Company's expense, independent legal, accounting or other advisors if, in its judgment, that is appropriate. The Company shall make adequate provisions for the payment of all fees and other compensation approved by the Committee to the Company's independent auditor, or to any consultants or experts employed by the Committee.

## **Responsibilities**

### ***Engagement and Oversight of Independent Auditor and Annual Audit***

The Committee shall be responsible for the appointment (subject to shareholder ratification, if such ratification is required or sought), evaluation, termination and replacement of the Company's independent auditor, including resolution of disagreements between management and the auditor regarding financial reporting and approval of engagement fees and terms. The independent auditor shall report directly to the Committee. The Committee shall pre-approve all audit services and permitted non-audit services to be performed for the Company by the independent auditor. The Committee may adopt policies and procedures for the pre-approval of audit and permitted non-audit services (including pre-approval of fees), as permitted by applicable laws, rules and regulations.

The Committee shall monitor the independence of the independent auditor. The Committee shall require that the independent auditor submit to the Committee on an annual basis the Auditor's Statement, as defined herein. The Committee shall review with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the





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independent auditor and take appropriate action in response to the independent auditor's report to satisfy itself of the independent auditor's independence.

Prior to the performance of the independent auditor's annual audit, the Committee shall review the cost, scope and general plans for the audit and any attestations required to be provided by the independent auditor, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of such audit and/or attestation. At the conclusion of the audit and attestation, the Committee shall review the results of the audit and attestation and any comments or recommendations of the independent auditor, including management's responses. The Committee shall review with the independent auditor any difficulties the auditor encountered in the course of the audit/attestation work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any disagreements with management. In addition, the Committee shall review with the independent auditor any accounting adjustments that were noted or proposed by the auditor but were not included in the financial statements, and any material written communication, including any management or internal control letters issued, or proposed to be issued, by the independent auditor to the Company.

The Committee shall review and evaluate the qualifications, performance and independence of lead audit partners, discuss the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the independent auditor. The Committee shall ensure the regular rotation of the lead audit partner, as required by law.

### ***Reports from Independent Auditor***

Annually, the Committee shall review a report (the Auditor's Statement) by the independent auditor describing: (i) the independent auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) the relationships between the independent auditor and the Company or any affiliate, including each non-audit service provided to the Company and the matters set forth in Independence Standards Board Standard No. 1.

Quarterly and prior to the release of the Company's earnings for such quarter or the fiscal year, as appropriate, the Committee shall obtain from the independent auditor a report detailing: (i) critical accounting policies and practices to be used; (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; (iii) a summary of fees and expenses in a format sufficient for the Company to meet its reporting obligations under applicable laws, rules and regulations; and (iv) other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards, applicable laws, rules and regulations, and listing standards.

Annually, the Committee shall obtain from the independent auditor a report on its compliance with Section 10A of the Securities Exchange Act of 1934.

### ***Accounting and Financial Reporting***

The Committee shall meet to review and discuss with management and the independent auditor the Company's annual audited financial statements to be included in the Company's annual report on



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Form 10-K, including reviewing the specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and (i) the independent auditor's opinion with respect to the clarity of disclosures in the financial statements, (ii) the independent auditor's judgment as to the quality of the accounting principles used in the preparation of the financial statements, (iii) any changes in the accounting policies or principles applied by the Company, (iv) the reasonableness of significant judgments, (v) any material correcting adjustments that have been identified by the independent auditor, and any material unadjusted differences, (vi) any major issues as to the adequacy of the Company's internal control over financial reporting, and (vii) any special steps taken in light of any material control deficiencies or weaknesses. The Committee shall also discuss the results of the annual audit and any required attestation and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards, applicable law or listing standards, including matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, as it may be amended or supplemented from time-to-time including by SAS No. 90. Based on such discussion, the Committee shall make a determination whether to recommend to the Board of Directors that the audited financial statements be included in the Company's annual report on Form 10-K. The Committee shall also authorize the filing of the Company's annual report on Form 10K.

The Committee shall meet to review and discuss with management and the independent auditor the Company's quarterly financial statements to be included in the Company's quarterly reports on Form 10-Q, including reviewing the specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and shall (i) discuss the independent auditor's opinion with respect to such financial statements to determine that management and the independent auditor are satisfied with the content and disclosures in the financial statements that are included in the Company's quarterly reports on Form 10-Q; (ii) discuss with the independent auditor the matters required to be discussed by SAS No. 61; and (3) discuss the results of the independent auditor's review of the Company's quarterly financial information conducted in accordance with SAS No. 71.

Quarterly, the Committee shall discuss any issues regarding critical accounting policies, accounting principles, practices and judgments, and any significant unusual non-operating or non-recurring items.

Periodically, the Committee shall discuss with management, the internal auditors and the independent auditor the effect of new proposed regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements and other public disclosures.

### ***Earnings and Other Financial Information***

The Committee shall discuss with management the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e., discussions of the types of information to be disclosed and type of presentation to be made). The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

### ***Proxy and Other Reports***

The Committee shall prepare any report that is required to be prepared by the Committee and included in the Company's proxy statement or any other required report. The Committee shall review any public disclosures to be made by the Company regarding audit and non-audit services provided by the independent auditor.

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### ***Internal Audit Function***

Periodically, the Committee shall review the internal audit function of the Company, including the independence of its reporting obligations and the adequacy of the internal audit staffing.

Periodically, the Committee shall review and approve the proposed internal audit plans, and review progress reports on the conduct of the internal audit plan, a summary of findings from completed internal audits, and the status of open recommendations from previously completed internal audits.

### ***Internal Controls***

Quarterly the Committee shall discuss with management, the independent auditor and the internal auditors the Company's disclosure controls and procedures and internal control over financial reporting (as defined by the rules of the SEC and the Public Company Accounting Oversight Board) and management's evaluation of the effectiveness of such controls and procedures, as well as any required attestations to be provided by the independent auditor.

Quarterly the Committee shall discuss with management any report or certification required to be included in the Company's quarterly reports on Form 10-Q or annual report on Form 10-K, including with respect to: (i) the design and operation of internal control over financial reporting; (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and (iii) any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Periodically, the Committee shall discuss with management, the independent auditor and the internal auditor, the adequacy and effectiveness of the Company's other internal controls, elicit recommendations for the improvement of such other internal controls and review management's responses thereto.

### ***Legal/Compliance***

Periodically, the Committee shall meet with the Company's General Counsel to discuss any legal matters that could have a material impact on the Company's financial statements, and the Company's compliance with applicable laws, rules and regulations and listing standards. In addition, the Committee shall periodically meet with the General Counsel to receive and discuss a report on any material violations or potential material violations of law, breaches of duty to the Company and other substantial legal concerns, such as significant litigation and contingent liabilities, which have come to the attention of the General Counsel. The Committee shall meet at least annually in executive session with the General Counsel to review the foregoing matters.

Periodically, the Committee shall meet with the Chief Compliance Officer and other management with respect to the Company's compliance program generally, and review: (i) the dissemination of the Company's Principles of Business Integrity; (ii) the Chief Compliance Officer's review of compliance communications and training sessions generally, including their effectiveness; (iii) the results of any audits relating to compliance with laws or standards of conduct; (iv) the reporting system established under the Company's compliance program; and (v) any recommendations made by the Chief Compliance Officer to management and implementation actions by management. The Committee shall meet at least annually in executive session with the Chief Compliance Officer to review the foregoing matters.



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The Committee shall provide direction to the Chief Compliance Officer, Chief Financial Officer and Chief Audit Officer regarding any reported concerns regarding accounting, internal accounting controls or auditing matters.

The Committee shall report to the Board as needed with respect to the Committee's meetings with the General Counsel, Chief Compliance Officer and other management, and with respect to the compliance program generally.

### ***Risk Management***

Periodically, the Committee shall review and discuss with management the Company's major risk exposures (whether financial, operating or otherwise) and the measures management has taken to monitor, measure and control such exposures, including the guidelines and policies that govern the process by which risk assessment and management is undertaken and elicit recommendations for the improvement of the Company's risk assessment and mitigation procedures.

### ***Receipt of Complaints***

The Committee shall establish procedures for: (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The Committee shall periodically review with management and the independent auditor any correspondence with, or action by, regulators or government agencies or published reports that raise concerns regarding the Company's financial statements, accounting or auditing matters.

### ***Employment of Former Audit Staff***

The Committee shall approve guidelines for the Company's hiring of former employees of the independent auditor, which shall meet the requirements of applicable laws, rules and regulations and listing standards.

### ***Delegation***

The Committee may delegate any of its responsibilities to one or more members of the Committee, to the extent permitted by applicable laws, rules and regulations and listing standards.

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