

DYNEGY INC /IL/
Form PRE 14A
March 26, 2004

SCHEDULE 14A

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

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 Rule 14a-12

Dynegy Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

April 8, 2004

To our shareholders:

The 2004 annual meeting of shareholders of Dynegy Inc. will be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002. At the meeting, in addition to acting on the matters described in the attached proxy statement, there will be an opportunity to discuss other matters of interest to you as a shareholder.

It is important that your shares be represented and voted at the meeting. Please sign, date and mail the enclosed proxy card in the envelope provided, even if you plan to attend the meeting in person. You also may vote your shares by telephone or through the Internet as described on the enclosed proxy card. We look forward to seeing you in Houston on May 20.

Sincerely,

Daniel L. Dienstbier
Chairman of the Board

Bruce A. Williamson
President and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD THURSDAY, MAY 20, 2004

To our shareholders:

NOTICE IS HEREBY GIVEN, that the 2004 annual meeting of shareholders of Dynegy Inc., an Illinois corporation, will be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002 for the following purposes:

1. To elect eleven Class A common stock directors and two Class B common stock directors to serve until the 2005 annual meeting of shareholders;
2. To act upon a proposal to permit our Series C Convertible Preferred Stock due in 2033, which is held by a subsidiary of ChevronTexaco Corporation, our largest shareholder, to become convertible into our Class B common stock at a conversion price of \$5.78 per share, subject to specified adjustments;
3. To act upon a proposal to approve potential issuances of our Class B common stock upon the exercise of the preemptive rights previously granted to a subsidiary of ChevronTexaco Corporation, our largest shareholder, that may occur through May 2009;
4. To act upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as Dynegy's independent auditors for the fiscal year ending December 31, 2004;
5. If properly presented at the annual meeting, to act upon a shareholder proposal to amend our Bylaws to require that 75% of future equity compensation of senior executives be performance-based and that such compensation be fully disclosed to shareholders;
6. If properly presented at the annual meeting, to act upon a shareholder proposal urging the Compensation and Human Resources Committee, in developing future senior executive equity compensation plans, to utilize performance- and time-based restricted share programs in lieu of stock options; and
7. To act upon any other matters that may properly come before the meeting or any adjournment or postponement of the meeting.

The close of business on March 31, 2004 has been fixed as the record date for the determination of shareholders entitled to receive notice of and to vote at the annual meeting or any adjournment or postponement of the meeting.

You are cordially invited to attend the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE. A SELF-ADDRESSED, POSTAGE-PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET AS DESCRIBED ON THE ENCLOSED PROXY CARD.**

By Order of the Board of Directors,

J. Kevin Blodgett

Group General Counsel Corporate

Finance & Securities and Secretary

April 8, 2004

DYNEGY INC.

1000 Louisiana, Suite 5800

Houston, Texas 77002

(713) 507-6400

PROXY STATEMENT

GENERAL INFORMATION

The Board of Directors of Dynegy Inc. is soliciting the enclosed proxy for use at the annual meeting of shareholders to be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002, or at any adjournment or postponement of the meeting. This proxy statement, the Notice of Annual Meeting, the proxy card and our Annual Report to Shareholders for the year ended December 31, 2003, including financial statements, will be first mailed to shareholders on or about April 13, 2004. The Annual Report to Shareholders does not constitute part of the proxy soliciting material.

Quorum and Vote Required

Quorum. The presence of a majority of the votes of the shares of our Class A common stock and our Class B common stock, counted together, represented in person or by proxy at the annual meeting and entitled to vote on a matter, will constitute a quorum for consideration of that matter at the meeting. Abstentions and broker non-votes are counted in determining the number of shares represented in person or by proxy at the meeting. A broker non-vote occurs if a broker or other nominee who holds shares in street name for customers who are beneficial owners of those shares does not have discretionary authority with respect to the voting of the shares and has not received instructions with respect to a particular item from the customer. Broker non-votes as to a particular matter do not count toward the determination of the shares represented in person or by proxy and entitled to vote on that matter.

Election of Directors. There are thirteen persons nominated for election to serve as directors of Dynegy for a one-year term. In accordance with our Amended and Restated Articles of Incorporation, which we refer to as our Articles of Incorporation, of the thirteen director nominees, eleven are to be elected by the holders of our Class A common stock and two are to be elected by the holder of our Class B common stock. The affirmative vote of a majority of the votes of the shares of Class A common stock represented in person or by proxy and entitled to vote is required to elect a Class A common stock director. Under Illinois law, our Articles of Incorporation and our Amended and Restated Bylaws, which we refer to as our Bylaws, abstentions have the effect of votes against the election of the director nominees.

Under Illinois law and our Articles of Incorporation, holders of Class A common stock are entitled to cumulate their votes in the election of the Class A common stock directors. All holders of Class A common stock are entitled to eleven votes (the number of Class A common stock directors to be elected) for each of their shares for candidates nominated to serve as Class A common stock directors. Holders of Class A

common stock may:

cast their votes equally for all candidates;

cast all of their votes for any one candidate whose name has been placed in nomination prior to voting; or

distribute their votes among two or more candidates in any proportion.

The affirmative vote of a majority of the votes of the shares of Class B common stock represented in person or by proxy and entitled to vote is required to elect a Class B common stock director. Chevron U.S.A. Inc., a subsidiary of ChevronTexaco Corporation and referred to herein as CUSA, as the holder of all our outstanding shares of Class B common stock, will be entitled to one vote for each share it holds in the election of the Class B common stock directors. Holders of our Class A common stock do not vote in the election of the Class B common stock directors.

Please read Proposal 1 Election of Directors for a discussion of our director nominees and the affirmative independence determinations made by the Board with respect to such director nominees.

Approval of Convertibility of Series C Preferred Stock, Potential Issuances of Class B Common Stock under CUSA's Preemptive Rights and Ratification of Independent Auditors. Under our Articles of Incorporation, the holders of our Class A common stock and the holder of our Class B common stock are entitled to vote together as a single class on the approval of the convertibility of our Series C preferred stock, the potential issuance of Class B common stock under CUSA's preemptive rights and the ratification of auditors. The holders of our Class A common stock and Class B common stock are entitled to one vote for each share they hold. The affirmative vote of a majority of the shares of Class A common stock and Class B common stock, represented in person or by proxy and entitled to vote, is required to approve these matters. Under Illinois law, an abstention has the same legal effect as a vote against these proposals, but a broker non-vote is not counted for purposes of determining shares represented in person or by proxy and entitled to vote on the matter. CUSA has agreed to vote its Class B common stock in favor of the convertibility of the Series C preferred stock and we expect CUSA will similarly vote its shares of Class B common stock for the potential issuances of Class B common stock upon exercise of its preemptive rights.

Shareholder Proposals. Under our Articles of Incorporation, the holders of our Class A common stock and the holder of our Class B common stock are entitled to vote together as a single class on the shareholder proposals and are entitled to one vote for each share they hold. The affirmative vote of a majority of the votes of the shares present in person or by proxy at the meeting and entitled to vote on the shareholder proposals is necessary to approve any shareholder proposal, including the two described in this proxy statement. Under Illinois law, an abstention has the same legal effect as a vote against the proposal, but a broker non-vote is not counted for purposes of determining shares represented in person or by proxy and entitled to vote on the relevant matter.

Record Date and Outstanding Shares

The Board of Directors has fixed the close of business on March 31, 2004 as the record date for determining holders of outstanding shares of Class A common stock and Class B common stock entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting. As of the record date, there were outstanding [] shares of Class A common stock and 96,891,014 shares of Class B common stock. Class A common stock and Class B common stock are the only classes of outstanding securities entitled to notice of and to vote at the meeting.

Solicitation of Proxies

We will bear the cost of soliciting proxies. Proxies may be solicited by mail or facsimile, or by our directors, officers or employees in person or by telephone. We have retained Mellon Investor Services LLC to assist in the solicitation of proxies for a fee of \$12,500. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of common stock.

Questions concerning the proposals to be acted upon at the annual meeting should be directed to our Secretary at (713) 507-6400. Additional copies of this proxy statement or the proxy card may be obtained from our Investor Relations Department at our principal executive office. The mailing address of this office is 1000 Louisiana, Suite 5800, Houston, Texas 77002, and the telephone number is (713) 507-6400.

Revocation of Proxies

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The enclosed proxy, even though executed and returned, may be revoked at any time prior to the voting of the proxy by:

executing and submitting a revised proxy (including a telephone or Internet vote);

sending written notice to our Secretary at the address provided at the beginning of this proxy statement; or

voting in person at the meeting.

In the absence of a revocation, shares represented by proxies will be voted at the meeting.

Voting by Telephone or Internet

Shareholders of record can simplify their voting and reduce our costs by voting their shares by telephone or through the Internet. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, allow shareholders to vote their shares and confirm that their instructions have been properly recorded. If your shares are held in the name of a bank or broker, the availability of telephone and Internet voting will depend upon the voting processes of the bank or broker. Accordingly, shareholders should follow the voting instructions on the form they receive from their bank or broker. If you choose to cumulate your votes other than equally for directors, you **MAY NOT** use telephone or Internet voting. Rather, you **MUST** vote by returning the enclosed proxy card in the envelope provided or by voting in person at the annual meeting.

Shareholders who elect to vote through the Internet may incur telecommunications and Internet access charges and other costs for which they are solely responsible. The telephone and Internet voting facilities for shareholders of record will close at 11:59 p.m., Eastern Daylight Time, on May 19, 2004. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card.

Voting by Mail

Shareholders who elect to vote by mail are asked to sign, date and return the enclosed proxy card using the postage-paid envelope provided. The persons named as proxies on the proxy card were designated by the Board of Directors. Any proxy given pursuant to this solicitation and received prior to the meeting will be voted as specified in the proxy card. Unless you withhold authority to vote or instruct otherwise, proxies will be voted **FOR** the election of the nominees to the Board of Directors, equally or cumulatively as the proxies may determine; **FOR** approval of the convertibility of the Series C Convertible Preferred Stock due 2033; **FOR** the approval of potential issuances of Class B common stock upon exercise of CUSA's preemptive rights; **FOR** ratification of the appointment of PricewaterhouseCoopers LLP; **AGAINST** the shareholder proposal requiring an amendment to our Bylaws relating to performance-based equity compensation for executive officers; **AGAINST** the shareholder proposal recommending performance- and time-based restricted shares for executive officers; and in accordance with the judgment of the persons named on the proxy card on such other matters as may properly come before the meeting or any adjournment or postponement of the meeting.

Meeting Attendance

Because of limited seating, only shareholders, their proxy holders and our guests may attend the meeting. If you plan to attend, you must be a shareholder of record as of March 31, 2004 or you must bring with you a brokerage statement or other evidence of beneficial ownership showing ownership of common stock on March 31, 2004. Directions to the meeting site are located on the back cover of this booklet. Complementary valet parking will be provided at the meeting site.

Form 10-K

Shareholders may obtain, without charge, a copy of our 2003 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC). For copies, please contact our Investor Relations Department at the address of our principal executive office: Dynegy Inc., 1000 Louisiana, Suite 5800, Houston, Texas 77002. The Form 10-K is also available to the public through the SEC 's website at www.sec.gov and through our website at www.dynegy.com.

CORPORATE GOVERNANCE

In November 2003, the Board of Directors unanimously adopted Corporate Governance Guidelines developed and recommended by the Corporate Governance and Nominating Committee. The Corporate Governance Guidelines are posted in the Corporate Governance section of our website at www.dynegy.com, together with the following documents:

Amended and Restated Bylaws

Code of Business Conduct and Ethics

Code of Ethics for Senior Financial Professionals

Shareholder Communications Policy

Complaint and Reporting Procedures for Accounting and Auditing Matters

Audit and Compliance Committee Charter

Compensation and Human Resources Committee Charter

Corporate Governance and Nominating Committee Charter

Risk, Environment and Operations Committee Charter

Corporate Governance Guidelines

Our Corporate Governance Guidelines govern the qualifications and conduct of the Board of Directors. The Corporate Governance Guidelines address, among other things:

the independence and other qualifications of our Board members, with respect to which we require that at least a majority, and preferably 75%, of our Board members be independent of Dynegy and our management;

the regular meetings of our non-management directors;

the nomination of persons for election to the Board;

the evaluation of performance of the Board and its committees;

our expectation that Board members will attend all shareholder meetings;

the Chairman and CEO positions; and

the approval of the compensation of the CEO.

Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics applies to all directors, officers and employees of Dynegy. The key principles of this Code include acting legally and ethically, speaking up, getting advice and dealing fairly with our stakeholders.

Code of Ethics for Senior Financial Professionals

Our Code of Ethics for Senior Financial Professionals applies to our CEO, CFO, Controller and other designated senior financial professionals. The key principles of this Code include acting legally and ethically, promoting honest business conduct and providing timely and meaningful financial disclosures to our shareholders.

Shareholder Communications Policy

Our Shareholder Communications Policy provides a medium for shareholders to communicate with the Board of Directors. Under this Policy, shareholders may communicate with the Board of Directors or specific

Board members by sending a letter to Dynegy Inc., Shareholder Communications with the Board of Directors, Attn: Secretary, 1000 Louisiana, Suite 5800, Houston, Texas 77002.

Complaint and Reporting Procedures for Accounting and Auditing Matters

Our Complaint and Reporting Procedures for Accounting and Auditing Matters provide for the (i) receipt, retention and treatment of complaints, reports and concerns regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission of complaints, reports and concerns by employees regarding questionable accounting or auditing matters, in each case relating to Dynegy. Complaints may be made through a toll-free Integrity Helpline telephone number operated by an independent third-party and a dedicated e-mail address. Complaints received are logged by our senior Ethics and Compliance Office executive, communicated to the chairman of our Audit and Compliance Committee and investigated, under the supervision of our Audit and Compliance Committee, by our internal audit department or Ethics and Compliance Office. In accordance with Section 806 of the Sarbanes-Oxley Act of 2002, these procedures prohibit us from taking adverse action against any person submitting a good faith complaint, report or concern.

Director Attendance at Annual Shareholders Meeting

As described above, we have a policy to facilitate shareholder communications with the Board of Directors. Additionally, as detailed in our Corporate Governance Guidelines, Board members are expected to attend the annual shareholders meeting.

Separation of Chairman and CEO; Lead Director

Daniel L. Dienstbier, who has served as our non-executive Chairman of the Board since September 2002, will not stand for re-election at the annual meeting. In his capacity as non-executive Chairman of the Board, Mr. Dienstbier has, among other things, presided over our regular non-management director executive sessions. As discussed in our Corporate Governance Guidelines, the Board has no firm policy with respect to the separation of the Chairman and CEO positions. Rather, the Board believes that the interests of our shareholders are best served by a policy that enables the Board to make a determination regarding its Chairman based on our needs at the time.

To that end, the Board has determined that Bruce A. Williamson, our current CEO and a director, will be elected to the position of Chairman following the annual meeting, assuming he is re-elected by our shareholders to serve as a director for another year. Concurrently, the Board intends to appoint Patricia A. Hammick, a current director, as Lead Director following the annual meeting, assuming she is re-elected by our shareholders to serve as a director for another year. As Lead Director, Ms. Hammick would preside over the regular executive sessions of our non-management directors and have the other powers described in our Amended and Restated Bylaws, including the power to serve as a conduit to senior management between Board meetings and to consult with the Chairman regarding Board meeting agendas. The Board intends to pay Ms. Hammick an additional annual retainer of \$60,000 effective upon her election to the Lead Director position.

Affirmative Determinations Regarding Director Independence and Other Matters

The Board of Directors has determined each of the following directors and director nominees to be independent as such term is defined in the New York Stock Exchange (NYSE) Listed Company Standards:

Charles E. Bayless

David W. Biegler

Linda Walker Bynoe

Thomas D. Clark, Jr.

Daniel L. Dienstbier

Barry J. Galt

Patricia A. Hammick

George L. Mazanec

Robert C. Oelkers

Joe J. Stewart

William L. Trubeck

The Board of Directors has also determined that each member of the Audit and Compliance Committee, the Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee meets the independence requirements applicable to those committees prescribed by the NYSE and the SEC. The Board of Directors has further determined that more than one of the members of the Audit and Compliance Committee, including its Chairman Robert C. Oelkers, is an audit committee financial expert as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC.

With the assistance of legal counsel to Dynegy, the Corporate Governance and Nominating Committee reviewed the answers to annual questionnaires completed by the directors and director nominees as well as the above-described legal standards for Board and committee member independence and the criteria applied to determine audit committee financial expert status. On the basis of this review, the Corporate Governance and Nominating Committee made its recommendation to the full Board and the Board made its independence and audit committee financial expert determinations after consideration of the Corporate Governance and Nominating Committee's recommendation and a review of the materials made available to the Corporate Governance and Nominating Committee.

Director Nomination Process

Dynegy's director nominees are approved by the Board after considering the recommendation of the Corporate Governance and Nominating Committee. A copy of the Corporate Governance and Nominating Committee's charter is available in the Corporate Governance section of our

website at www.dynegy.com.

The Board may be comprised of (i) up to three Class B directors, which directors are elected by the holder of the outstanding shares of Class B common stock pursuant to our Articles of Incorporation, and (ii) up to twelve Class A directors, which directors are elected by the holders of the outstanding shares of Class A common stock. With respect to nominations for Class B director, our Articles of Incorporation provide that the Board will nominate such individuals as may be specified by a majority vote of the then sitting Class B directors or, if there are no such directors, by holders of a majority of the Class B common stock. The Class B director nominees set forth in this proxy statement were specified by a unanimous vote of the current Class B directors.

Regarding nominations for Class A director, the Corporate Governance and Nominating Committee identifies nominees in various ways. The committee considers the current directors that have expressed interest in and that continue to satisfy the criteria for serving on the Board as set forth in our Corporate Governance Guidelines. Other nominees that may be proposed by current directors or members of management or by shareholders are likewise considered. From time to time, the committee engages a professional firm to identify and evaluate potential director nominees.

All director nominees, whether put forth by a shareholder or otherwise, are evaluated in accordance with the qualifications set forth in our Corporate Governance Guidelines. These guidelines require that directors possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of our shareholders at large. They must also have an inquisitive and objective perspective, practical wisdom, mature judgment and sufficient personal resources such that any director compensation to be received from Dynegy would not be sufficiently meaningful to impact their judgment in reviewing matters coming before the Board. Finally, they must be able to work compatibly with the other members of the Board and otherwise have the experience and skills necessary to enable them to serve as productive members of the Board. Directors also must be willing to devote sufficient time to carrying out their fiduciary duties and other responsibilities effectively and should be committed to serve on the Board for an extended period of time. For additional information, please read our Corporate Governance Guidelines.

Of the 13 director nominees set forth in this proxy statement and the accompanying proxy card, 12 are current directors standing for re-election. George L. Mazanec, the sole director nominee who is not a current director, was identified by a professional search firm and recommended by Daniel L. Dienstbier, our retiring non-executive Chairman of the Board. The search firm was paid a fee to assist the Corporate Governance and Nominating Committee in reviewing potential director candidates meeting the evaluation criteria described above.

For purposes of the 2005 annual shareholder meeting, the committee will consider any nominations received by the Secretary from a shareholder of record on or before December 10, 2004 (the 120th calendar day before the one-year anniversary date of the release of these proxy materials to shareholders). Any such nomination must be accompanied in writing by all information relating to such person that is required under the federal securities laws, including such person's written consent to be named in the proxy statement as a nominee and to serving as a director if elected. The nominating shareholder must also submit its name and address, as well as that of the beneficial owner if applicable, and the class and number of shares of Dynegy common stock that are owned beneficially and of record by such shareholder and such beneficial owner. Finally, the nominating shareholder must discuss the nominee's qualifications to serve as a director as described in our Corporate Governance Guidelines.

PROPOSAL 1

ELECTION OF DIRECTORS

Class A Common Stock Directors

Eleven Class A common stock directors are to be elected at the annual meeting by the holders of Class A common stock to serve one-year terms. The affirmative vote of a majority of the shares of Class A common stock represented in person or by proxy and entitled to vote is required to elect a Class A common stock director. Under Illinois law, abstentions have the effect of votes against the election of the director nominees.

Under Illinois law and our Articles of Incorporation, holders of Class A common stock are entitled to cumulate their votes in the election of the Class A common stock directors. Each holder of Class A common stock is entitled to eleven votes (the number of Class A common stock directors to be elected) for each of such holder's shares. Holders of Class A common stock may:

cast their votes equally for all candidates;

cast all of their votes for any one candidate whose name has been placed in nomination prior to voting; or

distribute their votes among two or more candidates in any proportion.

If you choose to cumulate your votes other than equally, you **MAY NOT** use telephone or Internet voting. Rather, you **MUST** vote by signing, dating and returning the enclosed proxy card in the envelope provided or by attending the annual meeting and voting in person.

Unless you withhold authority to vote or instruct otherwise, the enclosed proxy will be voted **FOR** the election of the nominees listed below equally or cumulatively, as the proxies may determine. Although the Board of Directors does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the annual meeting, the persons appointed in the enclosed proxy card will vote for the election of such other persons that may be nominated by the Board of Directors.

Class B Common Stock Directors

Two Class B common stock directors are to be elected at the annual meeting by the holder of our Class B common stock to serve one-year terms. The affirmative vote of a majority of the shares of Class B common stock represented in person or by proxy and entitled to vote is required to elect a Class B common stock director. Under our Articles of Incorporation, CUSA, as the sole holder of Class B common stock, is entitled to nominate and elect up to three Class B common stock directors.

Director Information

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All of the nominees for Class A common stock director and Class B common stock director, except for George L. Mazanec, are currently directors of Dynegy. The following table sets forth information regarding the names, ages and principal occupations of the current directors and director nominees, other directorships held by them in public companies and the length of their service as a director of Dynegy.

Directors and Nominees	Principal Occupation and Directorships	Age as of March 15, 2004	Director Since
Class A Common Stock Directors			
Daniel L. Dienstbier	Non-Executive Chairman of the Board of Dynegy	63	1995
Bruce A. Williamson	President and CEO of Dynegy	44	2002
Charles E. Bayless	Retired Chairman, President and Chief Executive Officer of Illinova Corporation; Director of True Pricing LLC, Patina Oil & Gas Corporation, Predict Power Inc. and Thermon Corporation	61	2000
David W. Biegler	Chairman of Estrella Energy; Director of Trinity Industries, Inc.	57	2003
Linda Walker Bynoe	President and Chief Executive Officer of Telemat Ltd; Director of CitiStreet Funds, Inc., Angelo & Maxie s, Inc., Fidelity Life Association and Simon Property Group, Inc.	51	2002
Thomas D. Clark, Jr.	Director, Center for Virtual Organizations and Commerce; E.J. Ourso College of Business Administration, Louisiana State University	63	2003
Barry J. Galt	Retired Chairman and Chief Executive Officer of Seagull Energy Corp.; Director of Trinity Industries, Inc., StanCorp Financial Group, Inc. and Abraxas Petroleum Corp.	70	2002
Patricia A. Hammick	Former Senior Vice President, Strategy and Communications of Columbia Energy Group; Consultant and Adjunct Professor at George Washington University; Director of Consol Energy, Inc.	57	2003
George L. Mazanec	Retired Advisor to the Chief Operating Officer of Duke Energy Corporation and Former Vice Chairman of PanEnergy Corporation; Director of National Fuel Gas Company, Northern Trust Bank of Texas, NA and AEGIS Insurance Services, Inc.	67	
Robert C. Oelkers	Retired Vice President and Comptroller of Texaco Inc.	59	2002
Joe J. Stewart	Retired President of BWX Technologies, Inc. and Past President and Chief Operating Officer of The Babcock & Wilcox Company; Retired Executive Vice President of McDermott International, Inc.	65	2000
William L. Trubeck	Executive Vice President, Western Group of Waste Management Inc.; Director of Yellow Roadway Corporation	57	2003
Class B Common Stock Directors			
Howard B. Sheppard	Assistant Treasurer, ChevronTexaco Corp.	58	2004
Raymond I. Wilcox	Vice President, ChevronTexaco Corp. and President ChevronTexaco Exploration & Production Company	58	2003

Set forth below is additional biographical information with respect to our current directors and director nominees.

Daniel L. Dienstbier has served as non-executive Chairman of the Board of Dynegy since September 2002 and as a director of Dynegy since 1995. He served as interim CEO of Dynegy from May 2002 until Mr. Williamson's election in October 2002 and as President of Northern Natural Gas Company, which was a Dynegy subsidiary, from February 2002 until May 2002. Mr. Dienstbier has over thirty-five years of experience in the oil and gas industry. He served as President and Chief Operating Officer of American Oil & Gas Corp. from October 1993 through July 1994, President and Chief Operating Officer of Arkla, Inc. from July 1992 through October 1993, and President of Jule, Inc., a private company involved in energy consulting and joint venture investments in the pipeline, gathering and exploration and production industries, from February 1991 through June 1992. Previously, Mr. Dienstbier served as President and Chief Executive Officer of Dyco Petroleum Corp. and Executive Vice President of Diversified Energy from February 1989 through February 1991. In addition, he served as President of the Gas Pipeline Group of Enron Corp. from July 1985 through July 1988. Mr. Dienstbier is a former director of American Oil & Gas Corp., Arkla, Inc., Enron Corp. and Midwest Resources. He is also a former member of the Audit and Compliance Committee of Northern Border Partners, L.P.

Bruce A. Williamson has served as President, CEO and as a director of Dynegy since October 2002. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates, most recently serving as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke Energy business units with global commodities and international business positions. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy's Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer.

Charles E. Bayless served as Chairman of Illinova and Illinois Power from August 1998 until his retirement in December 1999. Mr. Bayless served as Chief Executive Officer of Illinova and President of Illinois Power from July 1998 until September 1999. He was Chairman, President and Chief Executive Officer of UniSource Energy Corporation from 1992 to 1998. Mr. Bayless served as a Director of Illinova from 1998 until becoming one of our directors upon the closing of the Dynegy-Illinova merger in February 2000. Mr. Bayless also serves on the boards of directors of several energy and energy-related technology companies, including True Pricing LLC, Patina Oil & Gas Corporation, Predict Power Inc., and Thermon Corporation.

David W. Biegler was elected to the Board in April 2003. Since August 2003, he has served as Chairman of Estrella Energy, L.P., which was formed to engage in the acquisition, construction and management of natural gas industry assets, with an emphasis upon intrastate and regional interstate pipelines. From 1997 until 2001, he served as President and Chief Operating Officer of TXU Corporation, which engages in power generation and energy marketing and provides electric and natural gas utility services and other energy-related services. From 1993 to 1997, he served as Chairman, President and Chief Executive Officer of ENSERCH Corp. Mr. Biegler is also the retired Vice Chairman of TXU Corporation and current Chairman of Regency Gas Services, LLC. He currently serves as a Director of Trinity Industries, Inc. and Austin Industries, Inc. and as Chairman of the American Gas Foundation.

Linda Walker Bynoe was elected to the Board in September 2002. Ms. Bynoe has served as President and Chief Executive Officer of Telemat Ltd., a project management and consulting firm, since 1995 and previously as Chief Operating Officer since 1989. Ms. Bynoe also currently serves as a Director of CitiStreet Funds, Inc., Angelo & Maxie's, Inc., Fidelity Life Association and Simon Property Group, Inc. From 1978 to 1989, Ms. Bynoe held various positions with the Capital Markets division of Morgan Stanley, serving as Vice President from 1984 to 1989. Prior to 1976, Ms. Bynoe was a certified public accountant in the audit and tax division of Arthur Andersen & Co.

Thomas D. Clark, Jr. was elected to the Board in July 2003. Mr. Clark is the Edward G. Schlieder Distinguished Chair of Information Science and Director of the Center for Virtual Organizations and Commerce

at Louisiana State University. Mr. Clark also serves on the boards of Louisiana Tobacco Settlement Corp., several community organizations and four privately-held companies. Mr. Clark was previously Dean of the E.J. Ourso College of Business Administration at Louisiana State University. Prior to this position, he was the Gage Crocker Outstanding Professor at the Air Force Institute of Technology where he served in the School of Engineering. Mr. Clark also served as a decision analyst for the Assistant Secretary of the Air Force and was the functional manager of the USAF Maintenance Management Information System.

Barry J. Galt was elected to the Board in September 2002. Mr. Galt served as a director of Ocean Energy, Inc. from his retirement in 1999 until the acquisition of Ocean Energy by Devon Energy Corporation in April 2003. He served as Chairman and Chief Executive Officer of Seagull Energy Corporation, the predecessor to Ocean Energy, from 1983 through 1998 and as Vice Chairman of Seagull from January 1999 until May 1999. Prior to his employment by Seagull, Mr. Galt acted as President and Chief Operating Officer of The Williams Companies. Mr. Galt has also served as a director of Trinity Industries, Inc. since 1989, a director of StanCorp Financial Group, Inc. since 1989 and a director of Abraxas Petroleum Corp. since September 2003.

Patricia A. Hammick was elected to the Board in April 2003. She currently serves as a director and member of the audit committee of Consol Energy, Inc. She is also currently a consultant and adjunct professor in graduate studies at George Washington University. Ms. Hammick served as Senior Vice President, Strategy and Communications and a member of the management committee of Columbia Energy Group from 1998 through 2000 and was Vice President, Corporate Strategic Planning, for Columbia Energy Group from 1997 through 1998. From 1983 to 1996, she served as the Chief Operations Officer for the National Gas Supply Association in Washington, D.C., and held a management position with Gulf Oil Exploration and Production Company from 1979 through 1983. Prior to 1979, Ms. Hammick worked for the American Petroleum Institute, the Center for Naval Analysis and the Naval Weapons Center.

George L. Mazanec has served as a member of the board of directors of National Fuel Gas Company, a diversified energy company, since October 1996. Mr. Mazanec was Advisor to the Chief Operating Officer of Duke Energy Corporation from August 1997 to 2000, and Vice Chairman of PanEnergy Corporation from 1989 until October 1996. He previously served as a director of TEPPCO, LP from 1992 to 1997, as a director of Northern Border Pipeline Company Partnership from 1993 to 1998, and as a director of Westcoast Energy Inc. from 1996 to 2002. Mr. Mazanec is the former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. and currently serves as a director of the Northern Trust Bank of Texas, NA and AEGIS Insurance Services, Inc. He has also served as a Member of the Board of Trustees of DePauw University since 1996.

Robert C. Oelkers was elected to the Board in August 2002. He served as President of Texaco International Trader Inc. from April 1999 until his retirement in October 2001. Mr. Oelkers served as Vice President and Comptroller of Texaco Inc. from April 1994 until March 1999. Mr. Oelkers was employed by Texaco Inc. from 1966 until his retirement. Mr. Oelkers also served as a member of the Financial Accounting Standards Board's Advisory Committee from 1997 through 2000.

Joe J. Stewart served as President of BWX Technologies, Inc., Lynchburg, Virginia, and Executive Vice President of McDermott International, Inc., New Orleans, Louisiana, a diversified energy and environmental equipment and services company, from 1995 until his retirement in 1998. He was President and Chief Operating Officer of The Babcock & Wilcox Company and Executive Vice President of McDermott International, Inc. from 1993 to 1995 and Executive Vice President of the Power Generation Group of The Babcock and Wilcox Company from 1987 to 1993. Mr. Stewart also served as Vice President & Group Executive of McDermott Marine Construction, Europe Operations from 1984 to 1987, and was President of Babcock & Wilcox International from 1980 to 1984. Mr. Stewart served as a Director of Illinova from 1998 until the closing of the Dynegy-Illinova merger in February 2000.

William L. Trubeck was elected to the Board in April 2003. He has served as director and member of the audit committee of Yellow Roadway Corporation since April 2003 and Executive Vice President of Waste

Management Inc. s Western Group since April 2003. He previously served Waste Management as Executive Vice President, Operations Support, and Chief Administrative Officer from May 2002 until April 2003 and Executive Vice President and Chief Financial Officer from March 2001 until April 2002. He was Senior Vice President Finance and Chief Financial Officer of International Multifoods, Inc. from 1997 until March 2000, and President, Latin American Operations of International Multifoods, Inc. from 1998 until March 2000.

Howard B. Sheppard was appointed to the Board in March 2004. He has served as Assistant Treasurer of ChevronTexaco Corp. since October 2001 and previously served as Assistant Treasurer of Chevron Corp. from February 1988 until October 2001. Mr. Sheppard has been employed by ChevronTexaco and its affiliates since the merger of Gulf Oil Corporation with Chevron Corporation in 1985. Prior to the merger, he held positions of increasing responsibility at Gulf Oil Corporation, advancing over a 16-year period to Assistant Treasurer.

Raymond I. Wilcox was named President of ChevronTexaco Exploration and Production Company and Vice President of ChevronTexaco Corporation in January 2002. Previously, he served as Managing Director of ChevronTexaco s Nigeria/Mid-Africa strategic business unit, a position he assumed in October 2001. Mr. Wilcox also previously served as chairman and managing director of Chevron Nigeria Ltd. from January 2000 until October 2001, following his service as general manager of asset management for that entity beginning in 1999. Mr. Wilcox has been employed by ChevronTexaco and its affiliates since 1968.

The Board of Directors unanimously recommends that shareholders vote **FOR** the election of the nominees to the Board of Directors.

Directors Meetings and Committees of the Board of Directors

During 2003, our Board of Directors held twelve meetings. Each director attended at least 75% of the total number of meetings of the Board of Directors during the period for which he or she has been a director and at least 75% of the total number of meetings held by all committees of the Board on which he or she served during the period that he or she served. Under our Corporate Governance Guidelines, directors who are not members of a particular committee are entitled to attend meetings of each such committee. The Board of Directors has the following committees:

Audit and Compliance Committee. The Audit and Compliance Committee, which currently is comprised of Messrs. Oelkers (chairman), Bayless, Galt and Trubeck and Messes. Bynoe and Hammick, met fifteen times during 2003. The Audit and Compliance Committee assists the Board of Directors in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent auditors qualifications and independence and the performance of our internal audit function and the independent auditors. Please read Audit and Compliance Committee Report for a discussion of the Audit and Compliance Committee s review of our 2003 audited financial statements.

Executive Committee. The Executive Committee, which currently is comprised of Messrs. Dienstbier (chairman), Bayless, Galt, Oelkers, Stewart, Sheppard and Williamson, met two times during 2003. The Executive Committee is comprised of the Chairman of the Board and/or Lead Director, the CEO, the Committee Chairpersons and one Class B director. This committee has the authority to review certain matters below the threshold for the full Board and is principally responsible for reviewing policies and programs designed to create a strong corporate image and for advising the Board on significant public affairs.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee, which currently is comprised of Messrs. Bayless (chairman), Biegler, Clark and Oelkers and Ms. Hammick, met five times during 2003. The Corporate Governance and Nominating Committee is responsible for identifying director nominees, developing and reviewing our Corporate Governance Guidelines and

overseeing the evaluation of the Board and management.

Compensation and Human Resources Committee. The Compensation and Human Resources Committee, which currently is comprised of Messrs. Galt (chairman), Stewart and Trubeck and Ms. Bynoe, met five times during 2003. The Compensation and Human Resources Committee is responsible for reviewing and approving corporate goals and objectives relevant to compensation of the CEO and other related matters, making recommendations to the Board regarding non-CEO compensation and incentive plans and providing an annual compensation report. This committee also establishes our overall compensation strategy and reviews executive development and executive succession plans. Please read [Compensation and Human Resources Committee Report on Executive Compensation](#) for a discussion of our 2003 executive compensation.

Risk, Environment and Operations Committee. The Risk, Environment and Operations Committee, which currently is comprised of Messrs. Stewart (chairman), Biegler, Clark and Wilcox, met five times during 2003. The Risk, Environment and Operations Committee is responsible for reviewing our environmental and occupational health and safety programs and policies and our compliance with these programs and policies, reviewing our loss prevention policies and risk management programs, including our insurance coverage, and monitoring the operational performance trends of our major operating segments.

Compensation of Directors

General. During 2003, each non-employee director other than the non-executive Chairman of the Board was paid an annual retainer of \$30,000 per year, plus \$2,000 per board meeting and \$1,000 per committee meeting attended. Chairpersons of the Audit and Compliance Committee and the Compensation and Human Resources Committee received chairpersons' fees of \$50,000 and \$25,000, respectively, while the chairpersons of the Corporate Governance and Nominating Committee and the Risk, Environment and Operations Committee received chairpersons' fees of \$10,000. Further, members of the Audit and Compliance Committee and the Compensation and Human Resources Committee received additional annual retainers of \$5,000 and \$2,500, respectively. The annual retainer, as well as meeting attendance and committee chairpersons' fees, are payable in cash and may be deferred in one or more investment options, including phantom stock units, at a particular director's election. Non-employee directors also receive annual phantom stock grants with a value of \$50,000, awarded quarterly in arrears based on the closing price of our Class A common stock on the last trading day of the quarter. Upon termination of one's service as a director, the shares of phantom stock become payable, at the director's election, in a lump sum payment or in monthly, quarterly or annual installment payments following such termination. The shares of phantom stock are payable in cash or in shares of Class A common stock. No annual stock option grants were made to non-executive directors in 2003 or are contemplated under our current compensation structure.

In addition, each director is entitled to reimbursement for his or her reasonable out-of-pocket expenses incurred in connection with travel to and from, and attendance at, meetings of the Board of Directors or its committees and related activities. Directors who are employees of Dynegy or employees of ChevronTexaco are not compensated for their services.

Daniel L. Dienstbier Compensation Arrangements. Mr.

Dienstbier was elected non-executive Chairman of the Board on September 19, 2002, and has continued to serve as non-executive Chairman of the Board since Mr. Williamson's election on October 23, 2002. Mr. Dienstbier continues to serve as non-executive Chairman of the Board and, pursuant to a services agreement, we paid him \$83,333 per month through January 31, 2003 and \$41,667 per month from February 1, 2003 through May 31, 2003.

Effective as of June 1, 2003, in his capacity as non-executive Chairman of the Board, Mr. Dienstbier is being paid an annual retainer of \$150,000. He otherwise is eligible to receive meeting fees and stock unit grants, but he is not entitled to additional director or related fees other than reasonable expense reimbursements.

In March 2004, we entered into a two-year consulting services agreement with Mr. Dienstbier effective as of May 20, 2004, the date of our annual shareholder meeting and upon which his service as a member of our Board will cease. His annual compensation pursuant to this agreement, which expires in March 2006, will be \$75,000 and will be paid in equal installments at the end of each quarter. Under this agreement, Mr. Dienstbier has agreed to advise Dynegy on all matters concerning its securities, ERISA and derivative litigation, and to provide other assistance on matters designated by management. Either party may terminate this agreement on 30 days prior written notice. If Dynegy terminates the agreement prior to its scheduled expiration, Mr. Dienstbier will be entitled to receive, on the 15th day following the 30-day notice period, a lump sum payment equal to all compensation he would have received under the agreement if the full term had been completed. Alternatively, if Mr. Dienstbier terminates the agreement in advance of the scheduled expiration, he will only be entitled to compensation earned on or before the termination date.

Please see Corporate Governance Separation of Chairman and CEO; Lead Director above for a discussion of the Board's anticipated actions resulting from Mr. Dienstbier's decision not to stand for re-election at the annual meeting.

Certain Transactions and Other Matters

For a description of certain transactions with management and others, certain business relationships, indebtedness of management and compliance with Section 16(a) of the Securities Exchange Act of 1934, see Executive Compensation Employment Agreements, Certain Relationships and Related Transactions and Section 16(a) Beneficial Ownership Reporting Compliance.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding beneficial ownership of our capital stock as of March 15, 2004, except as otherwise noted, by (i) each person who we know to own beneficially 5% or more of our Class A common stock or Class B common stock, (ii) each director or nominee for director, (iii) each current executive officer named in the Summary Compensation Table set forth below and (iv) all directors, nominees for director and current executive officers as a group. Share amounts and percentages shown for each individual or group in the table are adjusted to give effect to the exercise of all options exercisable by such individual or group within 60 days of March 15, 2004, regardless of whether such options are currently in the money.

	Number of Shares(1)		Percent of Class A Common Stock(2)
	Class A Common Stock	Class B Common Stock	
ChevronTexaco Corporation(3) Chevron U.S.A. Inc. 6001 Bollinger Canyon Road, Bldg. A4 San Ramon, CA 94583		96,891,014	25.7%(3)
Vanguard Fiduciary Trust Company(4) 500 Admiral Nelson Blvd. Malvern, PA 19355	14,554,317		5.2%
Bruce A. Williamson(5)	753,199		*
Nick J. Caruso(6)	30,000		*
R. Blake Young(7)	340,088		*
Alec G. Dreyer(8)	360,087		*
Carol F. Graebner(9)	72,290		*
Charles E. Bayless(10)	408,373		*
David W. Biegler(10)	19,369		*
Linda Walker Bynoe(10)	24,412		*
Thomas D. Clark, Jr.(10)	11,393		*
Daniel L. Dienstbier(10)	72,721		*
Barry J. Galt(10)	39,412		*
Patricia A. Hammick(10)	19,369		*
George L. Mazanec(10)	16,000		*
Robert C. Oelkers(10)	25,490		*
Joe J. Stewart(10)	96,520		*
William L. Trubeck(10)	9,369		*
Howard B. Sheppard(11)			*
Raymond I. Wilcox(11)			*
Current Executive Officers, Directors and Director Nominees as a Group (20 persons)(5)(6)(7)(8)(9)(10)(11)(12)	3,083,955		1.1%

* Less than 1%.

(1) Unless otherwise noted, each person or entity listed has sole voting and investment power with respect to the shares reported.

- (2) Based upon 280,663,657 shares of Class A common stock and 96,891,014 shares of Class B common stock outstanding at March 15, 2004.
- (3) The shares are held of record by CUSA. ChevronTexaco Corporation (ChevronTexaco) beneficially owns 100% of the capital stock of CUSA. Consequently, ChevronTexaco may be deemed to beneficially own all of the shares of Class B common stock owned of record by CUSA. The amount shown does not include 8,000,000 shares of our Series C preferred stock held by ChevronTexaco. Pending shareholder approval of the issuance of these shares under Proposal Two of this proxy statement, these shares would be convertible into shares of Class B common stock at a price of \$5.78 per share. For purposes of computing CUSA's beneficial ownership, the percentage of Class A common stock beneficially owned assumes conversion of all shares of Class B common stock into Class A common stock but does not assume conversion of any shares of our Series C preferred stock. If the convertibility of the Series C preferred stock is approved and CUSA were to convert those shares to Class B common stock, ChevronTexaco would beneficially own 166,095,166 shares of our Class B common stock, which would represent approximately 37% of our outstanding common stock.
- (4) Pursuant to its Schedule 13G filed February 10, 2004. Vanguard Fiduciary Trust Company is the trustee of certain employee benefit plans, which are subject to ERISA. Shares of our common stock are held in trust for the benefit of employees in the plans. As of December 31, 2003, the trustee held 14,554,317 shares of our common stock on behalf of the plans, all of which had been allocated to plan participants. The trustee votes shares allocated to plan participant accounts as directed by participants.
- (5) Amount shown includes 435,268 shares of restricted Class A common stock which vest on February 10, 2007 and 314,000 shares of Class A common stock acquired upon the cashless exercise of 666,667 employee stock options on March 2, 2004. Amount shown also includes approximately 3,931 shares of Class A common stock held by the Trustee of the 401(k) Plan for the account of Mr. Williamson, based on the market value of units held by Mr. Williamson in the 401(k) Plan's Dynegy stock fund divided by the closing price of our Class A common stock as of February 27, 2004.
- (6) Amount shown includes 30,000 shares of Class A common stock issuable upon the exercise of employee stock options held by Mr. Caruso.
- (7) Amount shown includes 252,771 shares of Class A common stock issuable upon the exercise of employee stock options held by Mr. Young and 37,109 shares of restricted Class A common stock which vest on February 10, 2007. Amount shown also includes approximately 7,892 shares of Class A common stock held by the Trustee of the 401(k) Plan for the account of Mr. Young, based on the market value of units held by Mr. Young in the 401(k) Plan's Dynegy stock fund divided by the closing price of our Class A common stock as of February 27, 2004.
- (8) Amount shown includes 262,553 shares of Class A common stock issuable upon the exercise of employee stock options held by Mr. Dreyer, 21,392 shares of restricted Class A common stock which vest on February 2, 2005 and 37,109 shares of restricted Class A common stock which vest on February 10, 2007. Amount shown also includes approximately 11,322 shares of Class A common stock held by the Trustees of the 401(k) Plan and the Illinois Power Company Incentive Savings Plan for the account of Mr. Dreyer, based on the market value of units held by Mr. Dreyer in these plans' Dynegy stock fund divided by the closing price of our Class A common stock as of February 27, 2004.
- (9) Amount shown includes 30,000 shares of Class A common stock issuable upon the exercise of employee stock options held by Ms. Graebner and 37,109 shares of restricted Class A common stock which vest on February 10, 2007. Amount shown also includes approximately 3,181 shares of Class A common stock held by the Trustee of the 401(k) Plan for the account of Ms. Graebner, based on the market value of units held by Ms. Graebner in the 401(k) Plan's Dynegy stock fund divided by the closing price of our Class A common stock as of February 27, 2004.
- (10) Amounts shown include 6,000 shares of Class A common stock issuable upon the exercise of director stock options held by Messrs. Galt and Oelkers and Ms. Bynoe, 16,000 shares of Class A common stock issuable upon the exercise of director stock options held by Mr. Dienstbier and 22,000 shares of Class A common stock issuable upon the exercise of director stock options held by each of Messrs. Bayless and Stewart. Amounts shown also include the following number of shares of our Class A common stock payable upon termination of service as a director, at the election of the director, with respect to certain phantom stock units awarded under the Dynegy Deferred Compensation Plan for Certain Directors: 6,393 shares payable to Mr. Clark; 9,369 shares payable to Messrs. Biegler, Dienstbier and Trubeck and Ms. Hammick; and 14,158 shares payable to Messrs. Bayless, Galt, Oelkers and Stewart and Ms. Bynoe. Does not include certain stock units held by Messrs. Galt, Bayless and Stewart and Ms. Hammick through our Deferred Compensation Plan which are payable, upon retirement, exclusively in cash and not in shares of Class A common stock. For Mr. Bayless, also includes 330,000 shares of Class A common stock issuable upon the exercise of employee stock options held by Mr. Bayless. Such options were granted to Mr. Bayless during his prior service as an officer of Illinova Corporation, a company we acquired in February 2000. For Mr. Mazanec, amount shown includes 3,000 shares held in two IRA's for his benefit, 1,000 shares held by the Mazanec Foundation, of which Mr. Mazanec is President and a director, and 1,000 shares held in two family trusts for the benefit of Mr. Mazanec's grandchildren. For Mr. Stewart, amount shown includes 3,177 shares of Class A common stock held in two living trusts for the benefit of Mr. Stewart and his wife and 57,185 shares held in a family limited partnership of which Mr. Stewart and his wife are the general partners and the aforementioned trusts are limited partners, together with eight trusts for the benefit of Mr. Stewart's children and grandchildren.
- (11) Messrs. Sheppard and Wilcox disclaim beneficial ownership of all shares of record held by CUSA.
- (12) Amount shown includes 785,863 shares beneficially owned by two executive officers who are not included in the Summary Compensation Table.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the compensation earned by or awarded to each individual who served as our CEO during 2003 and our four other most highly compensated executive officers at the end of 2003 (the Named Executive Officers) in combined salary and bonus earned in 2003, as well as amounts earned by or awarded to such individuals in their capacities as executive officers, if any, during 2002 and 2001.

SUMMARY COMPENSATION TABLE

Name and Position	Annual Compensation			Long-Term Compensation Awards			
	Fiscal Year	Cash Salary	Cash Bonus(1)	Other Annual Compensation(2)	Restricted Stock Awards(3)	Shares Underlying Stock Options(4)	All Other Compensation(5)
Bruce A. Williamson CEO, President and Director	2003	\$ 1,000,000	\$ 1,000,000		\$ 1,950,001	405,928	\$ 22,000
	2002(6)	\$ 191,335	\$ 2,250,000			2,000,000	\$ 296,584
Nick J. Caruso Executive Vice President and CFO	2003	\$ 500,000	\$ 800,000				\$ 22,000
	2002(7)	\$ 41,667	\$ 350,000			90,000	\$ 2,500
R. Blake Young Executive Vice President of Administration and Technology	2003	\$ 325,000	\$ 530,000		\$ 166,248	79,575	\$ 22,000
	2002	\$ 324,400	\$ 822,011			90,000	\$ 22,000
	2001	\$ 306,667	\$ 450,000	\$ 25,316		144,814	\$ 27,200
Alec G. Dreyer Executive Vice President, Generation	2003	\$ 400,000	\$ 450,000		\$ 166,248	79,575	\$ 192,019
	2002(8)	\$ 309,160	\$ 126,105			90,000	\$ 22,000
Carol F. Graebner Executive Vice President and General Counsel	2003(9)	\$ 258,667	\$ 575,000		\$ 166,248	169,575	\$ 22,000

- (1) Bonus awards for 2001 and 2003, which were paid in 2002 and 2004, respectively, generally were determined under the terms of our incentive compensation plan. No bonus payments were made for 2002 under our incentive compensation plan. The bonuses shown for 2002 for Mr. Williamson and Mr. Caruso were each paid upon execution of the officer's employment agreement in October 2002 and December 2002, respectively. The bonus shown for 2002 for Mr. Young was paid upon execution of a new employment agreement in September 2002, and the amount for 2003 includes a retention bonus of \$155,000 paid in accordance with the terms of his employment agreement. The bonus shown for 2002 and \$92,186 of the bonus shown for 2003 for Mr. Dreyer relates to the payment of principal and interest on a relocation loan made to Mr. Dreyer in connection with the consummation of the Dynegy-Illinova merger, as well as the related tax payments owed with respect to such amount. The bonus shown for Ms. Graebner includes \$200,000 paid upon execution of her employment agreement in March 2003.
- (2) Includes Perquisites and Other Personal Benefits if the value is greater than the lesser of \$50,000 or 10% of reported salary and bonus. For 2001, Mr. Young's amount reflects the dollar value of the difference between the price he paid for shares of Class A common stock purchased from Dynegy in a private placement transaction in December 2001 and the net proceeds per share to Dynegy from a concurrent public offering (after a \$1.00 per share underwriting discount).
- (3) For 2003, Mr. Williamson received 435,268 shares of restricted Dynegy Class A common stock valued at \$4.48 per share, and Messrs. Dreyer and Young and Ms. Graebner each received 37,109 shares of restricted Dynegy Class A common stock valued at \$4.48 per share. Such shares vest three years from the date of grant. During such period, any dividends paid on Dynegy Class A common stock will also be paid with respect to these restricted shares.

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- (4) Represents options to purchase shares of our Class A common stock at a price equal to the fair market value of our Class A common stock on the date of grant. Amounts for 2002 and 2003 generally reflect options granted in 2003 and 2004, respectively, for performance in the preceding year. Amounts for 2001 reflect options granted in 2001 for 2001 performance. Mr. Williamson's 2002 amount reflects options granted upon execution of his employment agreement in October 2002. The amount for Ms. Graebner includes 90,000 options awarded upon execution of her employment agreement in March 2003.

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(5) The amounts shown as All Other Compensation for 2003 include the following:

Mr. Williamson	A matching contribution under the 401(k) Plan (\$10,000) and a defined contribution under our portable retirement plan (\$12,000).
Mr. Caruso	A matching contribution under the 401(k) Plan (\$10,000) and a defined contribution under our portable retirement plan (\$12,000).
Mr. Young	A matching contribution under the 401(k) Plan (\$10,000) and a defined contribution under our portable retirement plan (\$12,000).
Mr. Dreyer	A matching contribution under the 401(k) Plan (\$10,000), a defined contribution under our portable retirement plan (\$12,000) and forgiveness of the outstanding principal amount owed to Dynegy under the Dynegy Inc. Short-Term Executive Stock Purchase Loan Program (\$170,019). See Certain Relationships and Related Transactions Transactions with Directors and Executive Officers Dynegy Inc. Short-Term Executive Stock Purchase Loan Program for further discussion.
Ms. Graebner	A matching contribution under the 401(k) Plan (\$10,000) and a defined contribution under our portable retirement plan (\$12,000).

The amount of All Other Compensation for Mr. Williamson for 2002 includes a payment made in connection with a non-compete obligation in respect of his prior employment that arose upon his election as our President and CEO (\$285,104).

- (6) Mr. Williamson was elected President and CEO in October 2002.
- (7) Mr. Caruso became an executive officer of Dynegy in December 2002.
- (8) Mr. Dreyer became an executive officer of Dynegy in October 2002.
- (9) Ms. Graebner became an executive officer of Dynegy in March 2003.

Stock Option Grants

The following table sets forth certain information with respect to stock option grants made to the Named Executive Officers during 2003 and/or related to 2003 performance under the Dynegy Inc. 2000 Long-Term Incentive Plan. No stock appreciation rights were granted during 2003.

	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term(\$)(2)	
	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees for Fiscal 2003	Exercise or Base Price (\$/Share)	Expiration Date	5%	10%
Bruce A. Williamson	405,928	25.7%	\$ 4.48	02/10/2014	\$ 1,143,681	\$ 2,898,312
Nick J. Caruso(3)						
R. Blake Young	79,575	5.0%	\$ 4.48	02/10/2014	\$ 224,198	\$ 568,163
Alec G. Dreyer	79,575	5.0%	\$ 4.48	02/10/2014	\$ 224,198	\$ 568,163
Carol F. Graebner	79,575	5.0%	\$ 4.48	02/10/2014	\$ 224,198	\$ 568,163
	90,000(4)	5.7%	\$ 2.00	03/11/2013	\$ 113,201	\$ 286,874

- (1) Amounts reflect the number of shares of our Class A common stock underlying the options granted. In each case, stock options were granted with an exercise price equal to the closing price of our Class A common stock on the date of grant.
- (2) The dollar amounts under these columns represent the potential realizable value of each grant of options assuming that the market price of the underlying common stock appreciates in value from the date of grant at the 5% and 10% annual rates prescribed by the SEC and therefore are not intended to forecast possible future appreciation, if any, of the price of our common stock. Potential realizable value is reported net of the option exercise price but before taxes associated with exercise. Actual gains, if any, on option exercises and common stock are dependent on the future performance of our common stock and overall market conditions.

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- (3) Mr. Caruso did not receive a stock option grant for 2003. His 2003 incentive compensation was more heavily weighted toward short-term incentive compensation in the form of a cash bonus, as the scheduled term of his employment agreement is shorter than the vesting period for the stock options granted. See Executive Compensation Summary Compensation Table above for further details.
- (4) This grant for Ms. Graebner reflects 90,000 options to purchase shares of our Class A common stock at a price of \$2.00 per share awarded upon execution of her employment agreement in March 2003.

Option Exercises and Year-End Value Table

The following table sets forth information regarding options held by the Named Executive Officers at December 31, 2003. No options to purchase our Class A common stock were exercised by any of our Named Executive Officers in 2003.

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Stock Options at 12/31/03		Value of Unexercised In-the- Money Stock Options at 12/31/03(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bruce A. Williamson			666,667	1,333,333	\$ 2,266,668	\$ 4,533,332
Nick J. Caruso				90,000		\$ 225,900
R. Blake Young			202,771	218,979		\$ 225,900
Alec G. Dreyer			242,553	151,068		\$ 225,900
Carol F. Graebner				90,000		\$ 205,200

(1) Value based on the closing price of \$4.28 on the New York Stock Exchange Composite Tape for our Class A common stock on December 31, 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the NYSE. Executive officers, directors and greater-than-10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon review of the copies of such forms furnished to us and upon written representations that no Forms 5 were required, we believe that all persons subject to these reporting requirements filed the required reports on a timely basis, except as described in the following sentence. Nick J. Caruso filed a Form 4 on March 15, 2004 disclosing six exempt discretionary transactions, five of which were not reported timely. These transactions involved the transfer of the then current value of Mr. Caruso's Dynegy stock fund account, which reflected employer matching contributions to such account under the Dynegy Inc. 401(k) Savings Plan, to another investment option available under such 401(k) Plan. The transactions that were not timely reported involved stock fund units representing his indirect ownership of less than 3,000 shares, which were effectively sold for approximately \$9,500 in the aggregate.

Employment Agreements and Change-in-Control Agreements

General. In late summer 2002, we changed our approach with respect to employment agreements with our senior executives. Under this approach, we seek to minimize the number of such agreements. We also seek to attain further uniformity in these agreements and have adopted a standard form agreement to facilitate this purpose. Among other things, this form agreement limits automatic renewals and the amount of severance payments that may be owed upon certain termination events. The agreements described below for Messrs. Williamson, Caruso and Young and Ms. Graebner reflect the renewal and severance-related provisions of this newly adopted form agreement.

Bruce A. Williamson Employment Agreement. Upon becoming our CEO and President effective October 23, 2002, Mr. Williamson signed an employment agreement that terminates on October 23, 2005, subject to one automatic extension for a one-year period. Concurrent with the execution of this agreement, Mr. Williamson received a signing bonus of \$2,250,000 and was granted options to purchase 2,000,000 shares of Class A common stock with an exercise price of \$0.88 per share, which was the closing price of our Class A

common stock on the date of grant. Mr. Williamson's employment agreement entitles him to a base salary of \$1,000,000 annually, subject to increase at the discretion of the Board of Directors, and the annual opportunity to earn additional bonus amounts, dependent upon specified financial or performance objectives, as a participant in our incentive compensation plan at the discretion of the Board of Directors. Mr. Williamson's annual base salary was not increased for 2004.

The employment agreement provides that Mr. Williamson is eligible to receive stock option grants each year during the term of the agreement at the discretion of the Board of Directors. Please read Compensation and Human Resources Committee Report on Executive Compensation for a discussion of the annual cash bonus and long-term incentives awarded to Mr. Williamson for 2003. The employment agreement also contains non-compete provisions if Mr. Williamson's employment is terminated.

Mr. Williamson's employment agreement also includes provisions governing the payment of severance benefits if his employment is terminated due to resignation following a constructive termination, as defined in the agreement, or by Dynegy without cause. For purposes of the agreement, the term constructive termination is defined to include a reduction in base salary or relocation outside of the Houston metropolitan area. Upon such a termination, Mr. Williamson would receive one year's base salary, one year of continued health and welfare benefits and a lump sum payment equal to the value of the 401(k) Plan matching contribution and portable retirement plan benefit he otherwise would have received through the term of the agreement. All employee stock options granted to him during the term of his employment also would become immediately vested. Further, if such a termination occurs within one year following specified change of control events, Mr. Williamson would be entitled to the following additional payments:

a lump sum amount equal to 2.99 times the greater of:

the highest average annual base salary and incentive compensation paid to Mr. Williamson for the three years preceding the year of termination, and

Mr. Williamson's base salary and target bonus amount for the year of termination; and

continued health and welfare benefits for 36 months from the termination date.

Nick J. Caruso Employment Agreement. Upon becoming our CFO effective December 2, 2002, Mr. Caruso signed an employment agreement that terminates on December 2, 2004, subject to one automatic extension for a one-year period unless either party provides 60 days prior written notice of its election not to extend the term. Concurrent with the execution of this agreement, Mr. Caruso received a signing bonus of \$350,000. Mr. Caruso's employment agreement entitles him to a base salary of \$500,000 annually, subject to increase at the discretion of the Board of Directors, and the annual opportunity to earn additional bonus amounts, dependent upon specified financial or performance objectives, as a participant in our incentive compensation plan at the discretion of the Board of Directors. Mr. Caruso's annual base salary was not increased for 2004.

The employment agreement also provides that Mr. Caruso is eligible to receive stock option grants each year during the term of the agreement at the discretion of the Board of Directors. The employment agreement also contains non-compete provisions if Mr. Caruso's employment is terminated.

Mr. Caruso's employment agreement also includes provisions governing the payment of severance benefits upon resignation following a constructive termination or termination following specified change of control events similar to those contained in Mr. Williamson's agreement as described above.

R. Blake Young Employment Agreement. Mr. Young executed a new employment agreement effective September 16, 2002. The agreement has a two-year term, subject to one automatic extension for a one-year period. Mr. Young serves as Dynegy's Executive Vice President of Administration and Technology. Upon execution of this agreement, Mr. Young received a bonus payment of \$822,011 and agreed to pay to Dynegy \$512,011, which was the full amount of principal and interest then outstanding under a loan Dynegy provided

him to participate in the December 2001 private equity offering. We also agreed to pay to Mr. Young on each of September 16, 2003 and September 16, 2004, subject to his continued employment, a bonus payment of \$155,000, and Mr. Young agreed to repay his then outstanding loans under Dynegey's Short-Term Executive Stock Purchase Program pursuant to their terms. See Certain Relationships and Related Transactions Transactions with Directors and Executive Officers. Mr. Young's employment agreement entitles him to a base salary of \$325,000, subject to increase at the discretion of the Board of Directors, and the annual opportunity to earn additional bonus amounts, dependent upon specified financial or performance objectives, as a participant in our incentive compensation plan at the discretion of the Board of Directors. Mr. Young's annual base salary was increased to \$350,000 for 2004.

The employment agreement also provides that Mr. Young shall be eligible to receive stock option grants each year during the term of the agreement at the discretion of the Board of Directors. The employment agreement contains non-compete provisions if Mr. Young's employment is terminated.

Mr. Young's employment agreement also includes provisions governing the payment of severance benefits upon resignation following a constructive termination or termination following specified change of control events similar to those contained in Mr. Williamson's agreement as described above.

Alec G. Dreyer Employment Agreement. Mr. Dreyer's 2003 compensation was determined under the terms of an employment agreement between Dynegey and Mr. Dreyer effective as of February 2, 2000. The agreement expires on February 2, 2005, subject to automatic one-year extensions. Mr. Dreyer serves as Executive Vice President of our power generation business. Mr. Dreyer's employment agreement entitles him to a base salary of \$290,000, subject to increase at the discretion of the Board of Directors, and the annual opportunity to earn additional bonus amounts, dependent upon specified financial or performance objectives, as a participant in our incentive compensation plan at the discretion of the Board of Directors. Mr. Dreyer was paid an additional base salary payment of approximately \$15,000 in connection with the execution of his employment agreement, which amount represented payment for the period between September 15, 1999 to the closing date of our acquisition of Illinova, Mr. Dreyer's former employer, covering the pro rata difference between his new base salary and his final base salary at Illinova (\$250,000 per annum). Mr. Dreyer's annual base salary was increased from \$400,000 to \$425,000 for 2004.

The employment agreement also provides that Mr. Dreyer is eligible to receive stock option grants each year during the term of the agreement at the discretion of the Board of Directors. Upon consummation of the Illinova acquisition, Mr. Dreyer was granted 25,218 stock options at an exercise price of \$23.38 per share, as well as a restricted stock grant of 10,696 shares (or 21,392 shares after giving effect to the August 2002 two-for-one stock split) vesting on February 2, 2005. All options granted to Mr. Dreyer prior to November 1, 1999 also became vested upon consummation of the Illinova merger. The employment agreement contains non-compete provisions in the event of Mr. Dreyer's termination of employment.

Mr. Dreyer's employment agreement also provided that he would be paid the following severance benefits if his employment was terminated due to resignation following a constructive termination, as defined in the agreement, or for any other reason other than his voluntary resignation, death, disability or discharge for cause:

a lump sum amount equal to 2.99 times the greater of:

the average annual base salary and incentive compensation paid to Mr. Dreyer for the highest three years preceding the year of termination; and

Mr. Dreyer's base salary and target bonus amount for the year of termination;

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a lump sum amount equal to the present value, as determined by the Board of Directors in its sole and absolute discretion, of the senior management benefits and other perquisites to which Mr. Dreyer is entitled through the remaining term of the agreement;

vesting of any previously granted unvested Dynegy stock options to be exercised until the later of the expiration of the term of the agreement or the one-year anniversary of the termination date; and

continued health and welfare benefits for 36 months from the termination date.

For purposes of the agreement, the term "constructive termination" is defined to include reductions in base salary, incentive or other compensation; a significant diminution in responsibilities; relocation outside of the Houston metropolitan area; and certain changes in control of Dynegy.

Carol F. Graebner Employment Agreement. Upon becoming our Executive Vice President and General Counsel effective March 11, 2003, Ms. Graebner signed an employment agreement that terminates on March 11, 2005, subject to one automatic extension for a one-year period. Concurrent with the execution of this agreement, Ms. Graebner received a signing bonus of \$200,000 and was granted options to purchase 90,000 shares of Class A common stock with an exercise price of \$2.00 per share, which was the closing price of our Class A common stock on the date of grant. Ms. Graebner's employment agreement entitles her to a base salary of \$320,000 annually, subject to increase at the discretion of the Board of Directors, and the annual opportunity to earn additional bonus amounts, dependent upon specified financial or performance objectives, as a participant in our incentive compensation plan at the discretion of the Board of Directors. Ms. Graebner's annual base salary was increased to \$350,000 for 2004.

The employment agreement also provides that Ms. Graebner is eligible to receive stock option grants each year during the term of the agreement at the discretion of the Board of Directors. The employment agreement also contains non-compete provisions if Ms. Graebner's employment is terminated.

Ms. Graebner's employment agreement also includes provisions governing the payment of severance benefits upon resignation following a "constructive termination" or termination following specified change of control events similar to those contained in Mr. Williamson's agreement as described above.

Executive Severance Pay Plan. In 2003, we approved a supplement to our executive severance pay plan to provide for payment of severance benefits to officers and other key employees in connection with a "change in control" as defined therein. Under this supplement, each person carrying the title of managing director or above generally is entitled to specified severance benefits, including (a) a lump sum payment equal to 100%-299% times the sum of his or her annual base salary and target bonus amounts, (b) a lump sum payment equal to his or her annual incentive target for the year, prorated for the termination, and (c) immediate vesting of all previously granted stock options and restricted stock awards, if his or her employment is "involuntarily terminated," as such term is defined in the supplement, within one year after a change in control of Dynegy; provided, however, that employees entitled to severance benefits under an employment agreement, such as the Named Executive Officers, are not entitled to severance benefits under the executive severance pay plan, as supplemented.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ChevronTexaco Corporation

General. We conduct a significant amount of business with ChevronTexaco and its affiliates. For 2003, ChevronTexaco was the only customer that accounted for 10% or more of our consolidated revenues (16%) and consolidated cost of sales (22%). During 2003, our marketing business recognized net purchases from ChevronTexaco of \$300 million. Our other businesses, primarily natural gas liquids, recognized aggregate sales to ChevronTexaco of \$900 million and aggregate purchases from ChevronTexaco of \$800 million. Following are descriptions of our business

relationships with ChevronTexaco and its affiliates.

Natural Gas Marketing. In connection with our ongoing exit from third-party risk management aspects of the marketing and trading business, we agreed with ChevronTexaco in early 2003 to terminate our natural gas purchase agreement and to provide for an orderly transition of responsibility for marketing ChevronTexaco's

domestic natural gas production. This agreement did not affect our contractual agreements with ChevronTexaco relative to its U.S. natural gas processing and the marketing of its domestic natural gas liquids, which are further described below. The cancellation of the agreement was effective January 1, 2003. In connection with the termination of the natural gas purchase agreement, we paid \$13 million to ChevronTexaco. As part of the transition, we also provided scheduling, accounting and reporting services to ChevronTexaco through June 2003. In connection with the termination of the transition agreement, ChevronTexaco paid us \$13.5 million in September 2003 as final settlement for the net payable and receivable balances.

Natural Gas Liquids. We also engage in other transactions with ChevronTexaco, including purchases and sales of natural gas and natural gas liquids. We also own a 63% interest in Versado Gas Processors, LLC, a joint venture with ChevronTexaco which purchases and processes natural gas in the portion of the mature Permian Basin located in Southeast New Mexico. We have a contractual right to process substantially all of ChevronTexaco's gas in North America. During 2003, ChevronTexaco gas accounted for 46% of the total volume of gas we processed. We also have refinery services contracts with various ChevronTexaco refineries that require us to obtain, on behalf of the refineries, natural gas liquids feedstocks that each refinery requires on a daily basis and which allow us to market excess liquefied petroleum gas produced during the refining process. These agreements extend through August 2006. In 2003, approximately 32% of our natural gas liquids sales were made to ChevronTexaco or one of its affiliates pursuant to these refinery agreements and pursuant to an agreement we have with Chevron Phillips Chemical Company. In the latter agreement, we supply a significant portion of Chevron Phillips Chemical's natural gas liquids feedstock needs in the Texas Gulf Coast area.

Additionally, we have the right to purchase or market substantially all of ChevronTexaco's natural gas liquids pursuant to a Master Natural Gas Liquids Purchase Agreement that extends through August 31, 2006. In 2003, approximately 37% of the natural gas liquids we purchased for our wholesale propane and natural gas liquids marketing businesses was purchased from ChevronTexaco and its affiliates.

We believe that the transactions with ChevronTexaco and its affiliates discussed above were executed on terms that are fair and reasonable.

Equity Investments. We hold investments in joint ventures in which ChevronTexaco or its affiliates are also investors. These investments include a 22.9% ownership interest in Venice Energy Services Company, L.L.C., which holds a pipeline gathering system, a processing plant, a fractionator and an underground natural gas liquids storage facility in Louisiana; and a 50% ownership interest in Nevada Cogeneration Associates #2, which holds our Black Mountain power generation facility in Nevada. During the year ended December 31, 2003, our portion of the net income from these joint ventures was approximately \$10 million.

Series B Exchange. In August 2003, we consummated a restructuring of the \$1.5 billion in Series B Mandatorily Convertible Redeemable Preferred Stock, which we refer to as the Series B preferred stock, previously held by CUSA. Pursuant to the restructuring, which we refer to as the Series B Exchange, CUSA exchanged its Series B preferred stock for the following:

a \$225 million cash payment;

\$225 million principal amount of our Junior Unsecured Subordinated Notes due 2016, which we refer to as the junior notes; and

8 million shares of our Series C Convertible Preferred Stock due 2033 (liquidation preference of \$50 per share), which we refer to as the Series C preferred stock.

The junior notes bear interest at a rate of 9.00% per annum during the first two years and a rate of 13.75% per annum thereafter, in each case compounded semi-annually and, at our option, payable in kind by issuance of additional junior notes. The junior notes are subject to mandatory

and optional prepayment provisions. In September 2003, we used proceeds of approximately \$2 million from the sales of certain non-strategic generation

investments to redeem a portion of the junior notes as a result of which capacity under our revolving credit facility was reduced by approximately \$2 million. Further, if we consummate the agreed sale of Illinois Power Company to Ameren Corp., we must use 75% of the net cash proceeds to prepay the junior notes. Please read our Annual Report on Form 10-K for the year ended December 31, 2003 for a discussion of our obligations to prepay the junior notes with the proceeds from asset sales, including the agreed sale of Illinois Power to Ameren Corp.

Subject to shareholder approval, the shares of Series C preferred stock generally are convertible into Class B common stock, at the holder's option, at a price of \$5.78 per share. If we have not obtained shareholder approval of the convertibility of the Series C preferred stock before August 11, 2004, the dividend rate on the Series C preferred stock will increase from 5.5% to 10% per annum until such time as we obtain shareholder approval or it is determined that such approval is not required under applicable regulations. These dividends are payable in February and August of each year, but we may defer payments for up to 10 consecutive semi-annual periods. On February 11, 2004, we made the first semi-annual dividend payment on the Series C preferred stock of \$11 million, as a result of which capacity under our revolving credit facility was reduced by \$11 million. Please read Proposal 2 *Approval of the Convertibility of our Series C Preferred Stock* for a discussion of the requirement that our shareholders approve the convertibility of the Series C preferred stock.

Additionally, following the third anniversary of the Lock-Up Period (as defined below), we may cause the Series C preferred stock to be converted into shares of our Class B common stock at any time the closing price of our Class A common stock exceeds 130% of the conversion price then in effect for at least 20 trading days within any period of 30 consecutive trading days prior to such conversion, provided that the shareholder approval described above is obtained. For purposes of the preceding sentence, the Lock-Up Period means the earlier of (a) February 11, 2005 and (b) the date 120 days after the consummation of one or more public or private sales of our qualified capital stock resulting in gross proceeds to us of at least \$250 million. At any time after the tenth anniversary of the closing of the Series B Exchange, we may redeem all outstanding shares of Series C preferred stock for a redemption price equal to \$50 per share plus accrued and unpaid dividends.

Further, until the earlier of (a) February 11, 2005 and (b) 120 days after one or more public or private sales of our qualified capital stock resulting in gross proceeds to us of at least \$250 million, CUSA may not transfer its shares of Series C preferred stock, except to its affiliates.

As part of the Series B Exchange, we also renegotiated certain prepayment arrangements with ChevronTexaco such that ChevronTexaco returned to us approximately \$40 million in pre-payments relating to our commodity purchase obligations and reduced our prepayment obligation from one month to one week.

For a complete description of the Series B Exchange, please read our Annual Report on Form 10-K for the year ended December 31, 2003 and the agreements we entered into with CUSA in connection with the Series B Exchange incorporated by reference therein.

Shareholder Agreement. In connection with the Series B Exchange, we and CUSA amended and restated our existing shareholder agreement. This amended and restated shareholder agreement, among other things, contains changes to give effect to CUSA's acquisition of the Series C preferred stock. Also, we agreed not to take any action that would cause CUSA's ownership interest in our voting stock to exceed 40% of our outstanding voting securities. With respect to the Series C preferred stock, only shares of common stock issued upon an optional conversion by CUSA are counted in calculating the 40% threshold. CUSA also waived its preemptive rights in respect of any issuances of equity in connection with our August 2003 recapitalization and with respect to up to \$250 million in issuances of qualified capital stock. CUSA continues to have preemptive rights with respect to other equity issuances we might make, including issuances of common stock pursuant to our employee benefit plans. Please read Proposal 3 *Approval of Continuation of Preemptive Rights Granted to CUSA with Respect to Future Issuances of Equity Securities.* We also amended our Bylaws to reflect our exit from the natural gas marketing business.

For a complete description of the amended and restated shareholder agreement, please read our Annual Report on Form 10-K for the year ended December 31, 2003 and the amended and restated shareholder agreement incorporated by reference therein.

Registration Rights Agreements. In connection with the Series B Exchange, we and CUSA amended and restated our existing registration rights agreement and entered into two new registration rights agreements. The existing registration rights agreement was amended and restated to, among other things, cover the common stock issuable upon conversion of the Series C preferred stock and restricts CUSA's ability to exercise its registration rights for a period of time following the Series B Exchange. The two new registration rights agreements, among other things, grant the holders of Series C preferred stock and junior notes specified resale rights, exchange offer rights and shelf registration rights for their securities.

Conflicts of Interest. ChevronTexaco, one of the world's largest integrated energy companies, is involved in every aspect of the energy industry, from oil and gas exploration and production to transportation, refining and retail marketing, as well as chemicals manufacturing and sales and power production. ChevronTexaco's present operations and its pursuit of future opportunities may overlap with our operations and strategy. There are no contractual limits on ChevronTexaco's ability to compete with us. Conflicts of interest may arise between ChevronTexaco, its affiliates and us as we each pursue business opportunities.

We have procedures in place designed to mitigate any such conflicts of interest. Under Article IV, Section E(3) of our Audit and Compliance Committee charter, our Audit and Compliance Committee is responsible for reviewing and approving potential conflicts of interest between or among affiliated shareholders, management and Dynegy. The Audit and Compliance Committee delegates its authority on these matters to the full Board from time to time, and it did so in connection with the Series B Exchange. Additionally, for transactions involving ChevronTexaco, the representatives of ChevronTexaco serving on our Board are recused from the Board's decision-making process with respect to the consummation of any such transactions. All of our directors, including the representatives of ChevronTexaco serving on our Board, are subject to our Code of Business Conduct and Ethics, which requires disclosure to the Board of potential conflicts of interest and recusal from deliberation and voting on matters that could raise an actual or potential conflict of interest.

Transactions with Directors and Executive Officers

General. We engaged in certain transactions with directors and executive officers or their immediate family members in 2003. Following is a description of these transactions.

Dynegy Inc. Short-Term Executive Stock Purchase Loan Program. In July 2001, we established the Dynegy Inc. Short-Term Executive Stock Purchase Loan Program pursuant to which eligible employees, including certain of our officers, were loaned funds to acquire Class A common stock through market purchases. We terminated this program as it related to new loans effective June 30, 2002. The notes bear interest at the greater of 5% or the applicable federal rate as of the loan date, are full recourse to the participants and mature on December 19, 2004. At December 31, 2003, an aggregate of approximately \$8 million, which included accrued and unpaid interest, was owed to us under this program.

In connection with our October 2002 restructuring, we offered to forgive 50% of the outstanding balance under loans established through this program effective as of January 15, 2003, April 15, 2003, July 15, 2003 or October 15, 2003, at the particular employee's election, in exchange for the payment of related federal income taxes by the particular employee. In order to provide incentives to those employees with outstanding loans under this program to remain with us post-restructuring, we agreed to forgive one-half of the remaining balance of each of their loans on or before December 31, 2003 and to forgive the then remaining balance under each such loan on or before December 19, 2004, subject to achievement of specified employment objectives. For employees terminated as part of the restructuring, the remaining balance outstanding under each loan matures and is due and payable on December 19, 2004. Interest rates charged under these loans remain unchanged.

Two of our Named Executive Officers, R. Blake Young and Alec G. Dreyer, had outstanding loans under this program during 2003. In September 2003, Mr. Young paid the full amount of \$642,536 outstanding under his loan, which included accrued interest. On January 15, 2003, we forgave 50% of the \$166,720 balance outstanding under Mr. Dreyer's loan, including accrued interest, and on October 15, 2003, we forgave the remaining balance. In connection with this forgiveness, which is permitted by Section 402 of the Sarbanes-Oxley Act, Mr. Dreyer remitted \$50,998 for payment of his resulting federal income tax obligations and executed a release relating to any claims he might have under the loan program. The loan amounts set forth above in this paragraph with respect to Messrs. Dreyer and Young represent the largest aggregate amount of such indebtedness outstanding during 2003.

Alec G. Dreyer Relocation Loan. In connection with our February 2000 merger with Illinova and the execution of his employment agreement with us, Mr. Dreyer received a \$300,000 loan from us to assist him with his relocation to Houston. The loan bears interest at 6.5% per annum, is secured by bonus payments payable to Mr. Dreyer following the date thereof and is payable in five annual installments of \$60,000 through March 1, 2005 or, if earlier, 10 days after the termination of his employment. Mr. Dreyer received bonus payments for 2001, 2002, 2003 and 2004 in sufficient amounts to satisfy the then owing annual installments under this loan. The highest amount outstanding under this loan in 2003, including accrued interest, was \$180,000; the current balance is approximately \$60,000. See Summary Compensation Table for further discussion.

Advancement of Legal Expenses. The Board of Directors previously approved, and during 2003 we advanced, amounts to cover the legal expenses of some of our current and former directors and executive officers relating to their involvement in investigations and litigation matters affecting us. For 2003, payments of approximately \$300,000 in the aggregate were made with respect to the legal expenses incurred by Messrs. Bayless, Dienstbier, Stewart and Watson and Otis J. Winters, who served as a director from January to May 2003, and payments totaling approximately \$26,416 were made to cover legal expenses incurred by Stephen