AES CORPORATION

Climate Change Review

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AES Climate Change Strategic Vision

Contains Forward Looking Statements

Why Climate Change?

- Regulations are here
- Significant market opportunity that will grow
- Large and diversified demand base
- Large and diversified supply base

Climate Change Mission

- Become a leading supplier of offsets to global compliance markets
- Near term focus on international opportunities under Kyoto with long-term expansion to US expected

Why AES?

- Skills required to develop offset projects mirror AES core competencies of development, construction management, ownership and operations
- AES experience in operating in developing countries
- AES presence in target Kyoto countries

Climate Change Focus is Intensifying

Melting Icecaps of Upsala Glacier, Argentina

1928

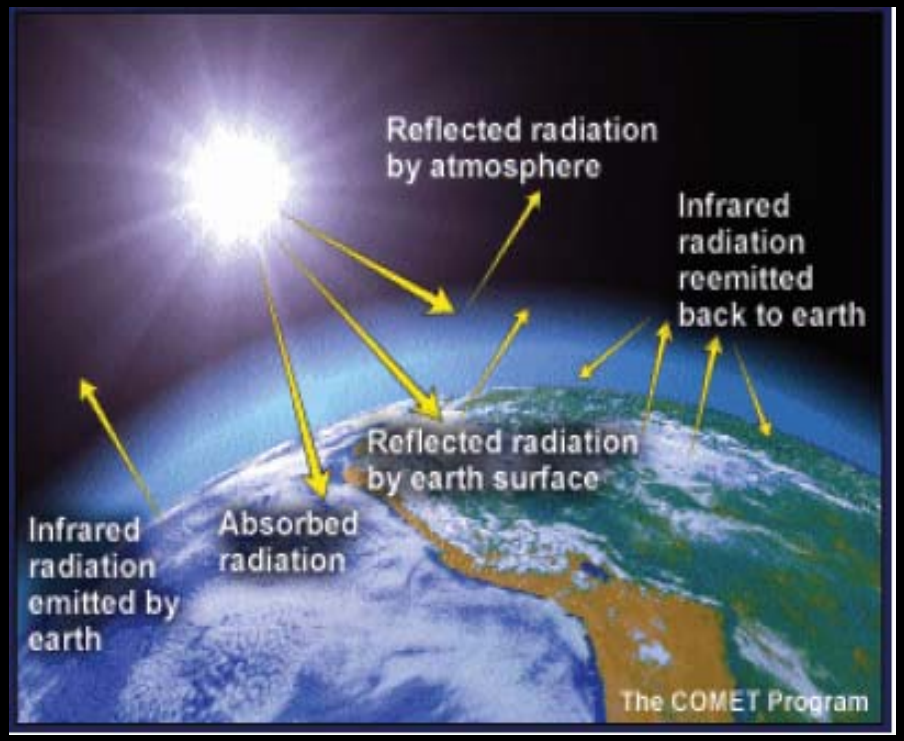


2004



Source: *Time*, Special Report Global Warming.

Global Warming Primer

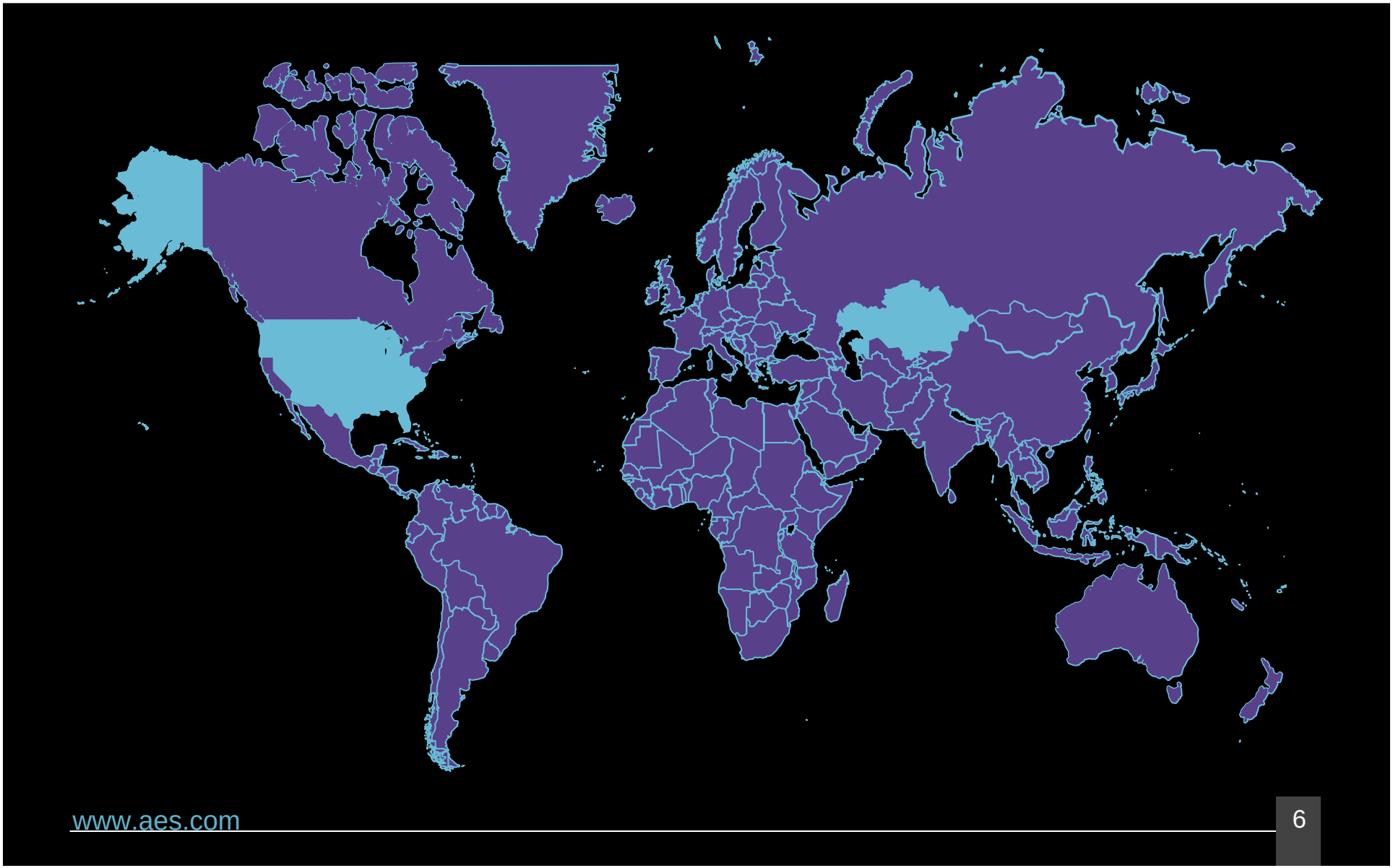


The Greenhouse Effect

- Global, not local, effect
- Six categories of greenhouse gases from human activities
- Greenhouse gas sources: power generation, transportation, industry, agriculture, deforestation
- Consensus on need for action
- Regulation is here

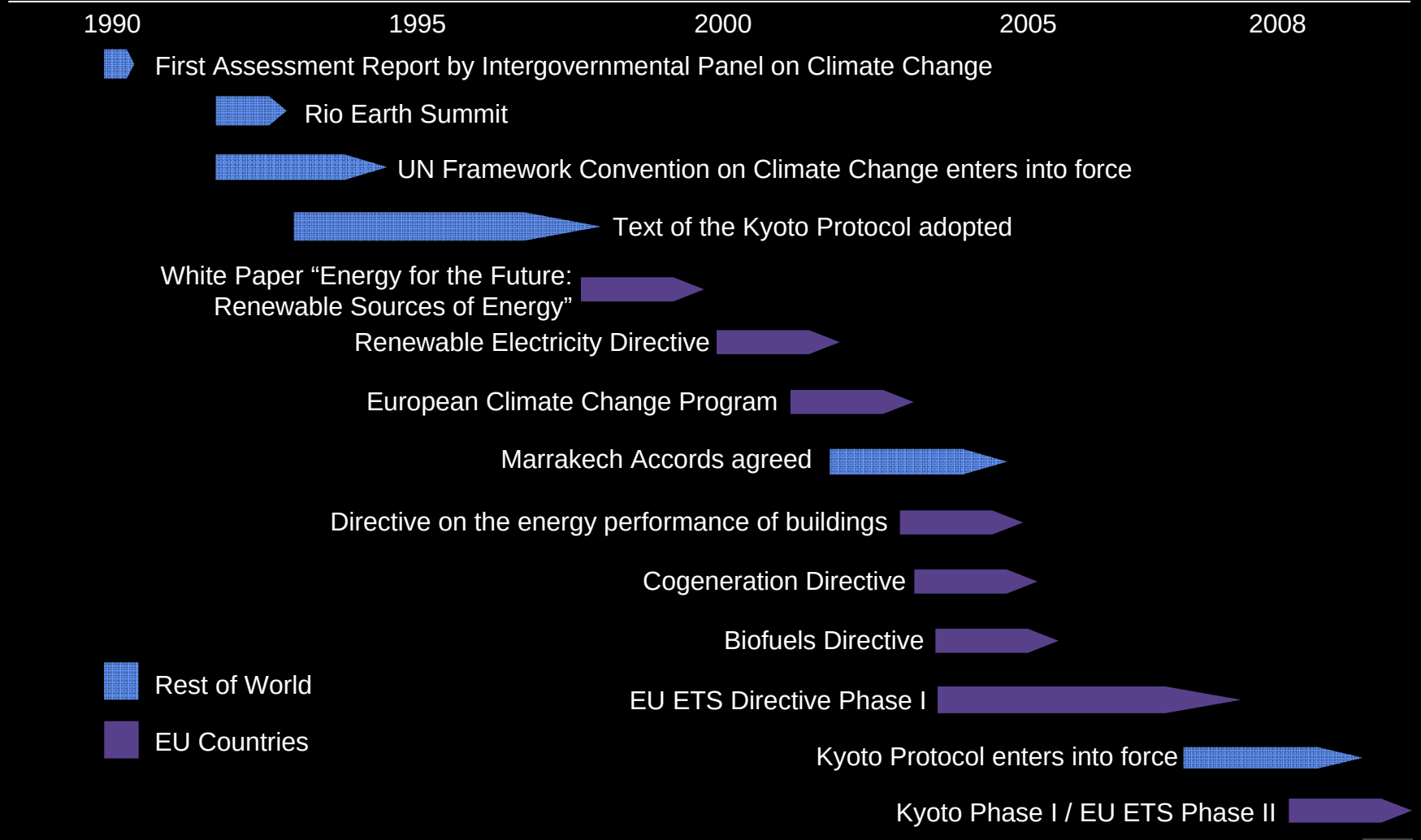
Source: US EPA.

Countries with Greenhouse Gas Legislation



Regulations March Forward - International

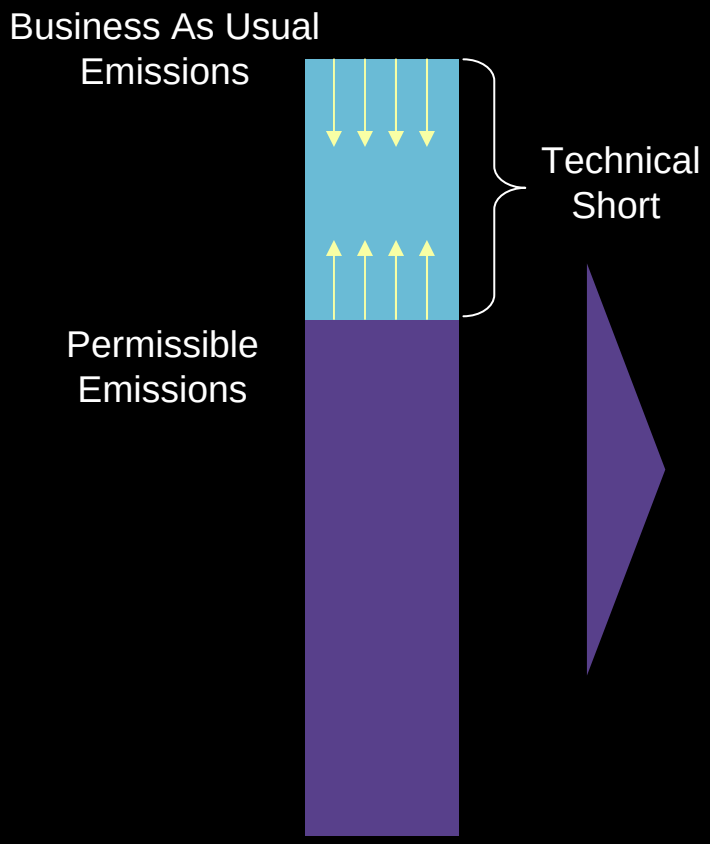
Contains Forward Looking Statements



Regulations Mandate Change

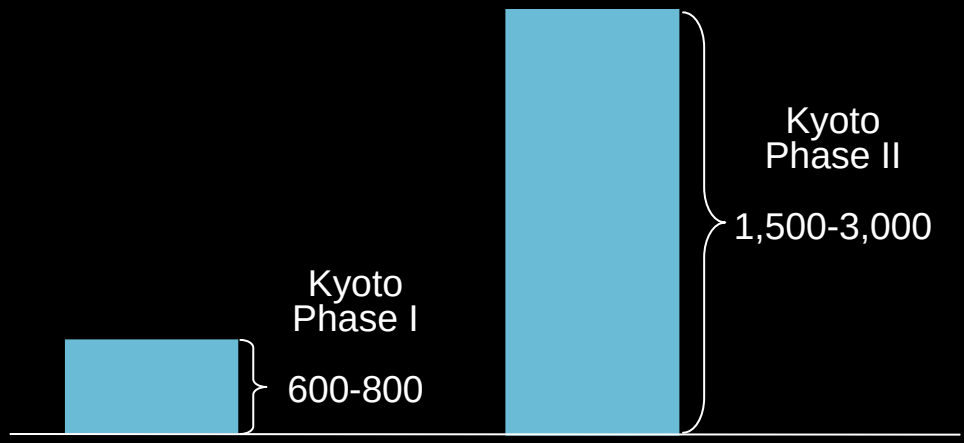
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Regulatory Structure



The difference between business as usual emissions and allocations (technical short) is addressed by carbon offsets and direct reduction of emissions

Potential Size of Offset Market (million tonnes/year)



Note: AES estimate.

AES Climate Change Strategy

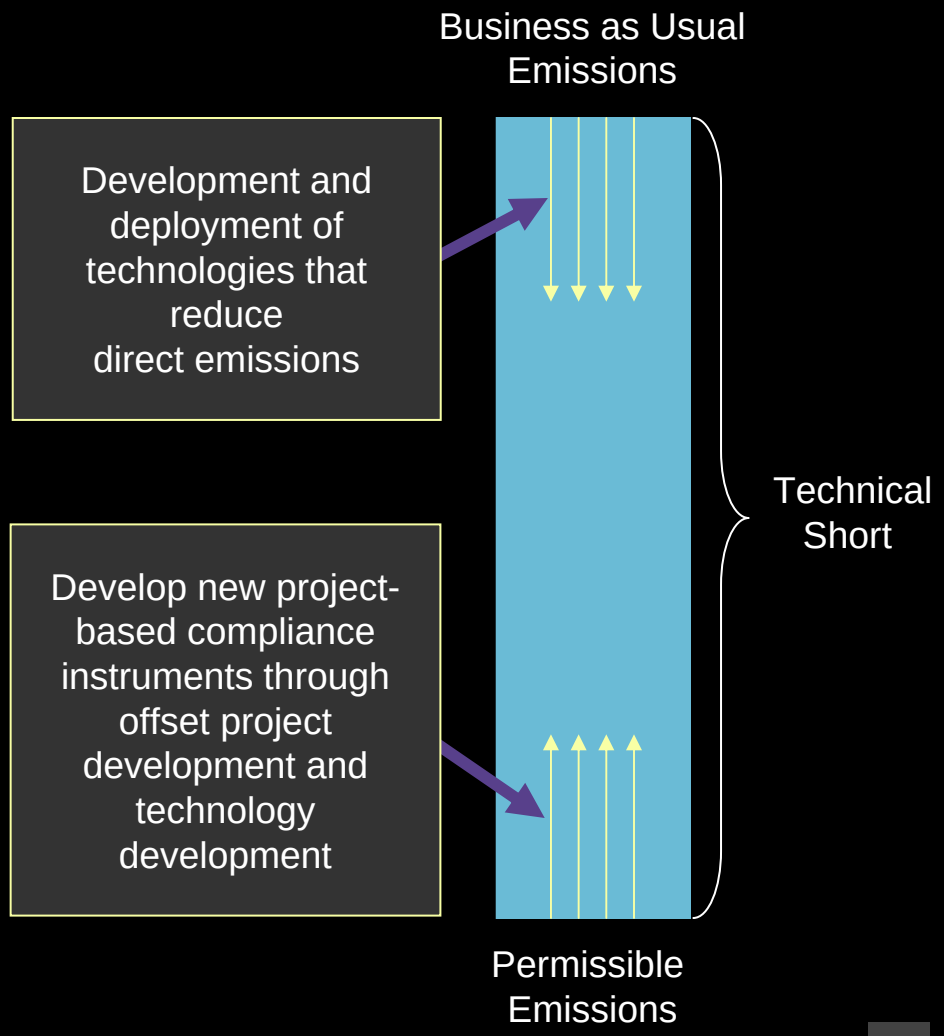
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Strategic approach

- Invest in large scale, low cost methods for creating certified emissions reductions (CERs) in developing countries for delivery against Kyoto obligations
- Diversified investments in technologies, methodologies, and geographies

Tactics

- Greenfield development
- 3rd party acquisition & partnerships
- Small project aggregation at low cost
- Technology development



Carbon Offset Development Status

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Agriculture	▪ AES ArgiVerde: 10 country joint venture with AgCert ▪ Current focus on animal waste management and palm oil
Landfill Gas	▪ Multiple letters of intent with municipal waste landfill operators in Philippines and China
Coal Mine Methane	▪ Ongoing negotiations with multiple coal mine operators in Ukraine
Renewable Generation	▪ Development activities for up to 80MW in Indonesia
Forestry	▪ Examining reforestation opportunities in South America
Technology	▪ Cooperative Research and Development Agreement (CRADA) with Los Alamos National Laboratory
CER Purchases	▪ Purchase of 17 MM+ tons of CERs from third parties with delivery through 2012
Other	▪ Strategic investment of ~$50 MM in AgCert

Methane Capture Project Examples



Open lagoon



Excavation of a new lagoon



A lagoon with a liner



Biodigester cells with flare and cogeneration equipment

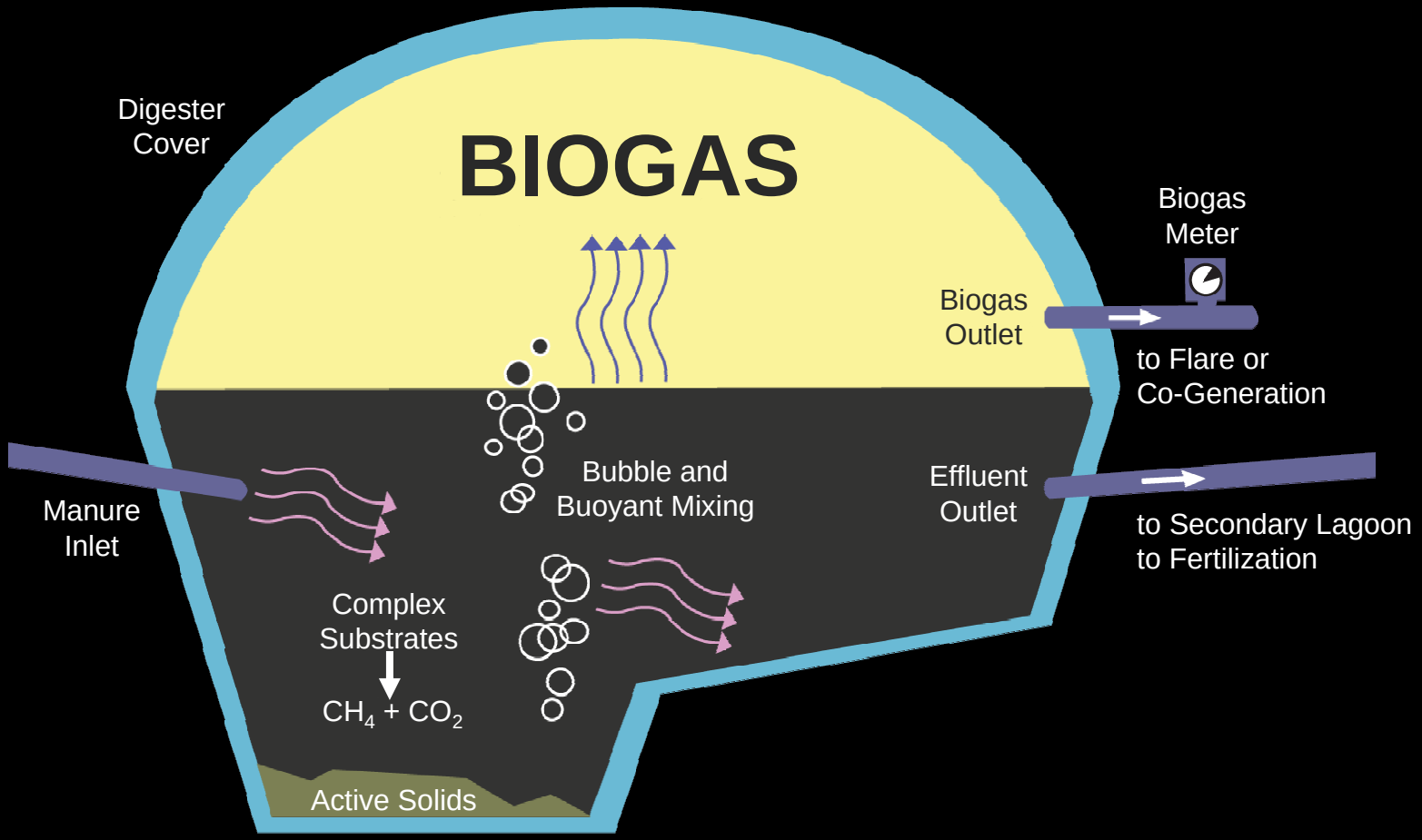


Biodigester cells

Note: Photography courtesy of AgCert.

AES AgriVerde Methane Capture from Agricultural Waste

Diagram of Anaerobic Digestion



Note: Diagram courtesy of AgCert.

AES AgriVerde Overview

Contains Forward Looking Statements

JV Structure

- AES controlled
- 80% AES equity ownership
- Experienced partner

Investment

- AES up to $325 MM commitment

Operations

- 8-12 week construction time
- ~6,000 CERs average per site
- 10 year project life, with 10 year extension upon re-registration with UN

Organization

- Bermuda based, with offices in Singapore, Moscow, and Florida
- 15 people currently, ramping up to 140 by YE ’07, ~250 by YE ‘08

Structure of Carbon Offset Investments

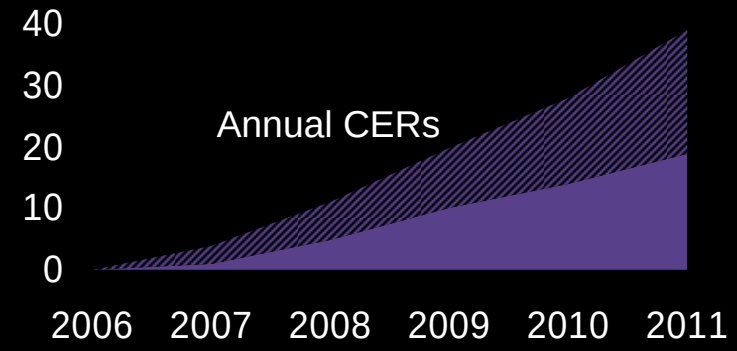
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Revenues	▪ Sale of CERs into OECD markets (Europe, Japan, Canada) ▪ No US sales assumed
Cost of Sales	▪ Minimal on-going operating expense at project level ▪ Continued build-out of AES AgriVerde infrastructure
Capital Expenditures	▪ Small-scale investments typically less than $10 MM per project ▪ Short construction period ▪ Minimal technology risk
Cash Flows	▪ CER generation and revenue in 12 to 18 months of construction after validation, registration and UN issuance

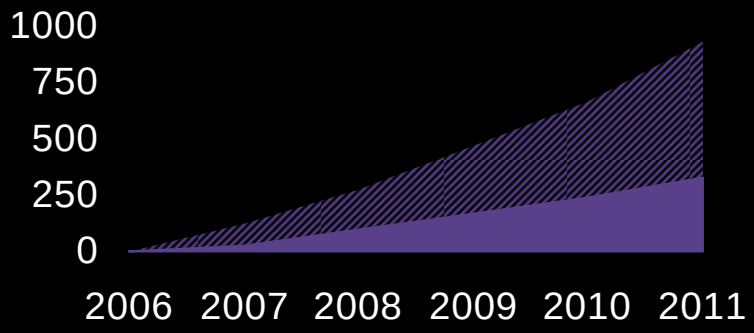
Carbon Offset Business Plan

Contains Forward Looking Statements

CER Production
MM tonnes per year



Total Capital
$MM



Key Assumptions

- AES funds up to $325 MM into AgriVerde through 2011, reaching 20 MM tonnes per year production rate by 2012
- Additional investment in offset activities to deliver incremental 20 MM tonnes per year CER production rate by 2012
- Average lifecycle cost for CERs less than $5/tonne (assuming 10 year life span)