The AES Corporation
Edison Electric Institute 45th Annual Financial Conference

October 31-November 1, 2010



Safe Harbor Disclosure

Certain statements in the following presentation regarding AES' business operations may constitute "forward-looking statements." Such forward-looking statements include, but are not limited to, those related to future earnings growth and financial and operating performance. Forward-looking statements are not intended to be a guarantee of future results, but instead constitute AES' current expectations based on reasonable assumptions. Forecasted financial information is based on certain material assumptions. These assumptions include, but are not limited to accurate projections of future interest rates, commodity prices and foreign currency pricing, continued normal or better levels of operating performance and electricity demand at our distribution companies and operational performance at our generation businesses consistent with historical levels, as well as achievements of planned productivity improvements and incremental growth from investments at investment levels and rates of return consistent with prior experience. For additional assumptions see the Appendix to this presentation. Actual results could differ materially from those projected in our forward-looking statements due to risks, uncertainties and other factors. Important factors that could affect actual results are discussed in AES' filings with the Securities and Exchange Commission including but not limited to the risks discussed under Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as well as our other SEC filings. AES undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

AES Offers Compelling Value Proposition

AES
the power of being global

Diverse Operating Portfolio

- Includes mix of regulated Utilities and unregulated Generation businesses
- Benefits from exposure to markets experiencing faster recovery in demand growth
- Ability to capitalize on platform of multiple geographies and energy sources

Attractive Growth in Near-Term Earnings and Free Cash Flow

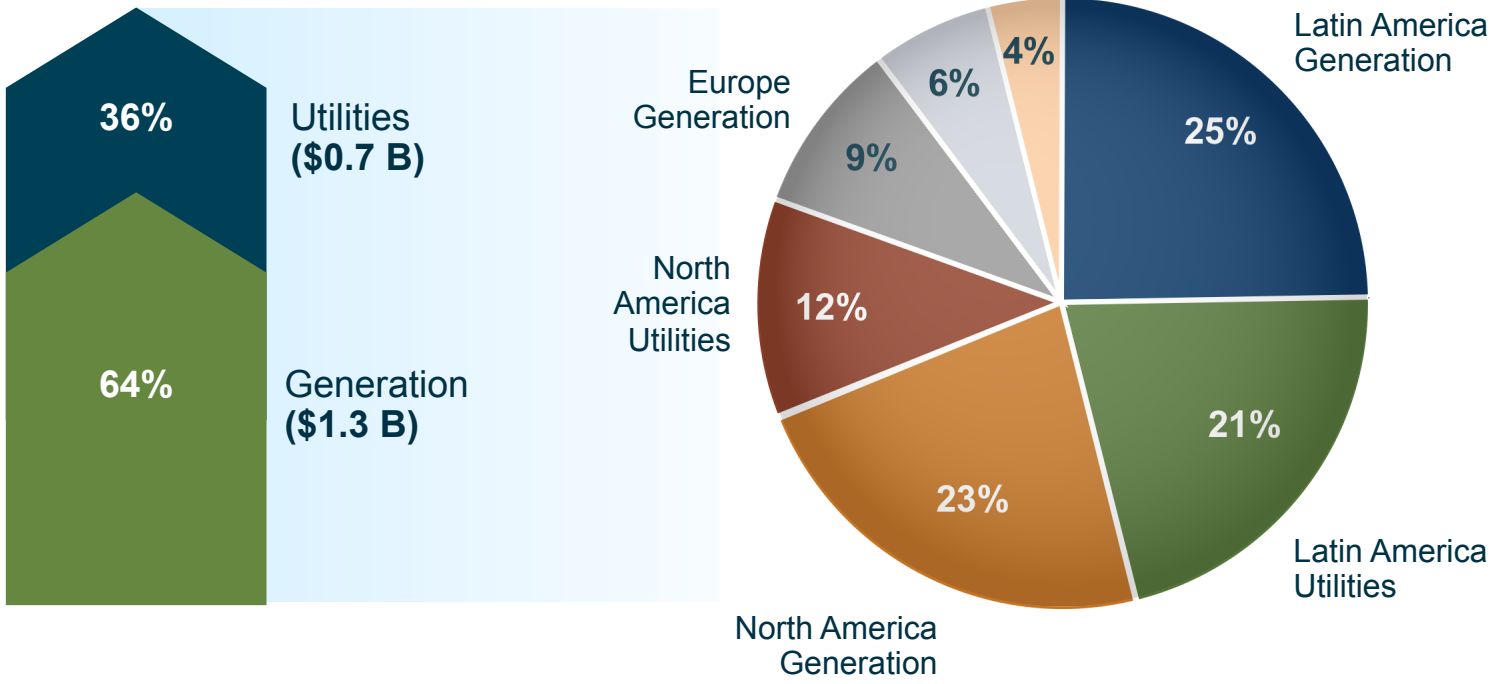
- Largely contracted and fully financed construction program
- Exposure to high growth markets
- Attractive M&A opportunities
- Cost reduction initiatives

Well Positioned to Benefit from Global Trends

- Strong liquidity position allows flexibility
- Pursuing balanced approach to capital allocation
- Demonstrated track record of investing cash at attractive returns
- Mature development pipeline/M&A opportunities

Diverse Operating Portfolio: Geographic & Line of Business Diversification Reduces Risk

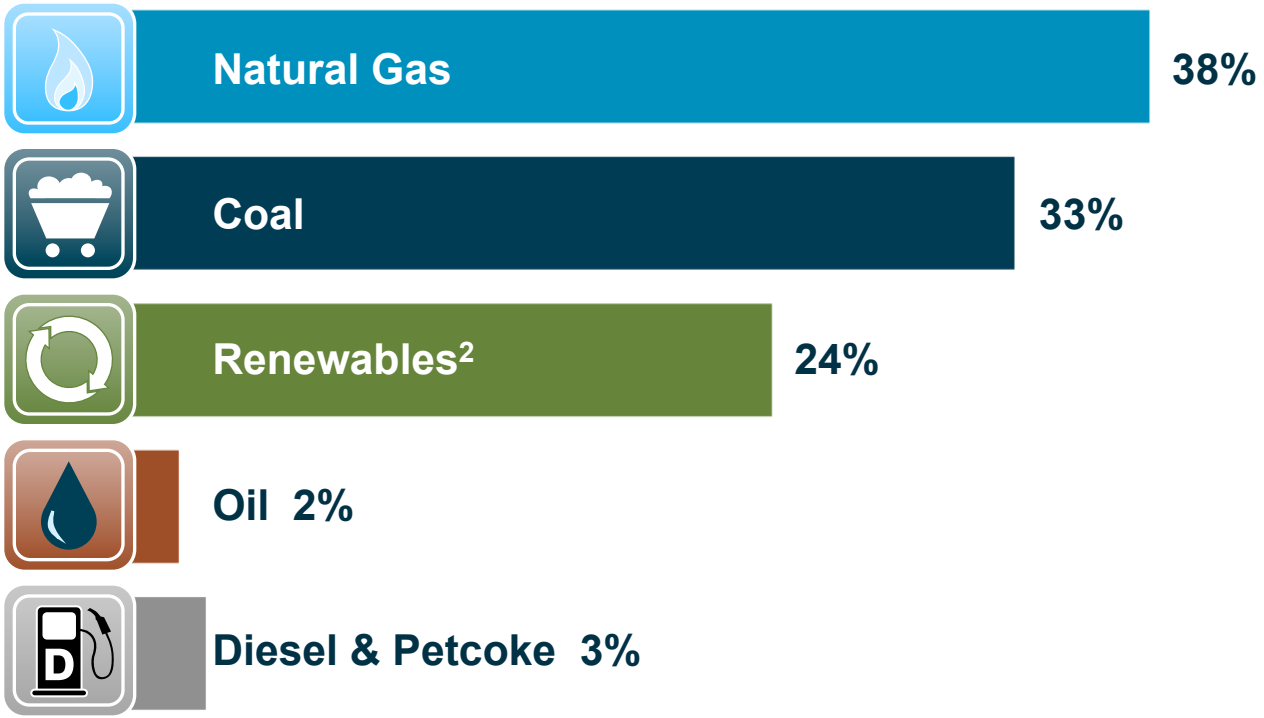
2009 Proportional Gross Margin[1,2] ($2 Billion)



1. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. The AES Corporation (the "Company") is a holding company that derives its cash flows from the activities of its subsidiaries, some of which may not be wholly-owned by the Company. Accordingly, the Company has presented certain financial metrics which are defined as Proportional (a non-GAAP financial measure). See Appendix for full definition.

Diverse Operating Portfolio: Businesses Utilize Multiple Fuel Types & Technologies

Current Portfolio by Fuel Type (MW[1])



62% of Our Capacity is in Natural Gas & Renewables

1. 41,129 MW (gross) in operation under Generation and Utilities businesses.
2. Renewables include biomass, hydro, solar and wind.

Diverse Operating Portfolio: We Benefit from Higher Electricity Demand Growth in Emerging Markets, Despite Weak Demand Growth in the U.S.

Electricity Demand Across Regions



North America | Latin America | Asia

Source: Economist Intelligence Unit.

1. In Vietnam, we have a 1,200 MW coal-fired project in development.

Despite Headwinds in Certain Markets, Diversification of Our Portfolio Has Kept Us On Track to Meet Full Year 2010 Guidance as of June 30, 2010

$ in Millions, Except Earnings Per Share	YTD Q2 2010		2010 Guidance as of August 6, 2010[2]
	Amount	% of Guidance Midpoint	
Proportional Gross Margin[1]	$1,190	52%	$2,200-$2,400
Adjusted EPS[1]	$0.48	52%	$0.90-$0.95
Diluted EPS from Continuing Operations	$0.42	51%	$0.80-$0.85
Consolidated Operating Cash Flow	$1,416	49%	$2,775-$2,975
Proportional Operating Cash Flow[1]	$781	50%	$1,475-$1,675
Proportional Free Cash Flow[1]	$558	56%	$900-$1,100

- As of June 30, 2010, overall macro trends are favorable, with the exception of commodity prices in North America and the Euro exchange rate
  - Higher volumes in markets such as Brazil (+5%) and the Philippines (+12%)
  - Favorable foreign currency trends relative to U.S. Dollar
  - Higher prices in Latin America generation

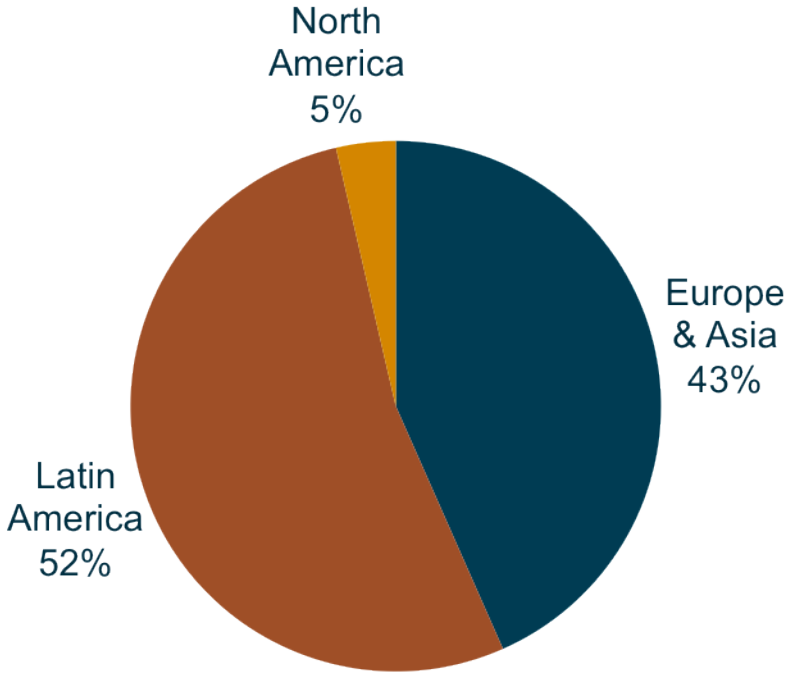
1. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. Key assumptions: currency and commodity prices per forward curves as of June 30, 2010; effective tax rate in low 30s, which assumes extension of Subpart F tax benefits not yet renewed; and diluted weighted average shares of 776 million.

Construction Program Contributes Near-Term Growth; Funding Already In Place and On Track To Be Completed by 2012

2,704 MW On-Line by Year[1]



2,704 MW On-Line by Geography[1]



1,498 MW on-line by year-end 2010

1. As of October 2010.

Highlights of Key Construction Projects

Maritza in Bulgaria

670 MW Coal Plant
Expected COD: Q4 2010

- Coal Plant
  - Achieved full load operation during testing and commissioning



- Waste Disposal Facility
  - Mechanical completion achieved and all operating licenses have been issued



Angamos in Chile

518 MW Coal Plant
Expected COD: 2H 2011

- Commenced preliminary testing of unit 1 and on schedule to commence testing of unit 2



Highlights of Key Construction Projects

Changuinola in Panama

233 MW Hydro Plant
Expected COD: 1H 2011

- Unit 2 hydro test on powerhouse complete on July 14, 2010
- Main tunnel completed
- Contractor for reservoir deforestation works is mobilized to site and clearing works are progressing



Campiche in Chile

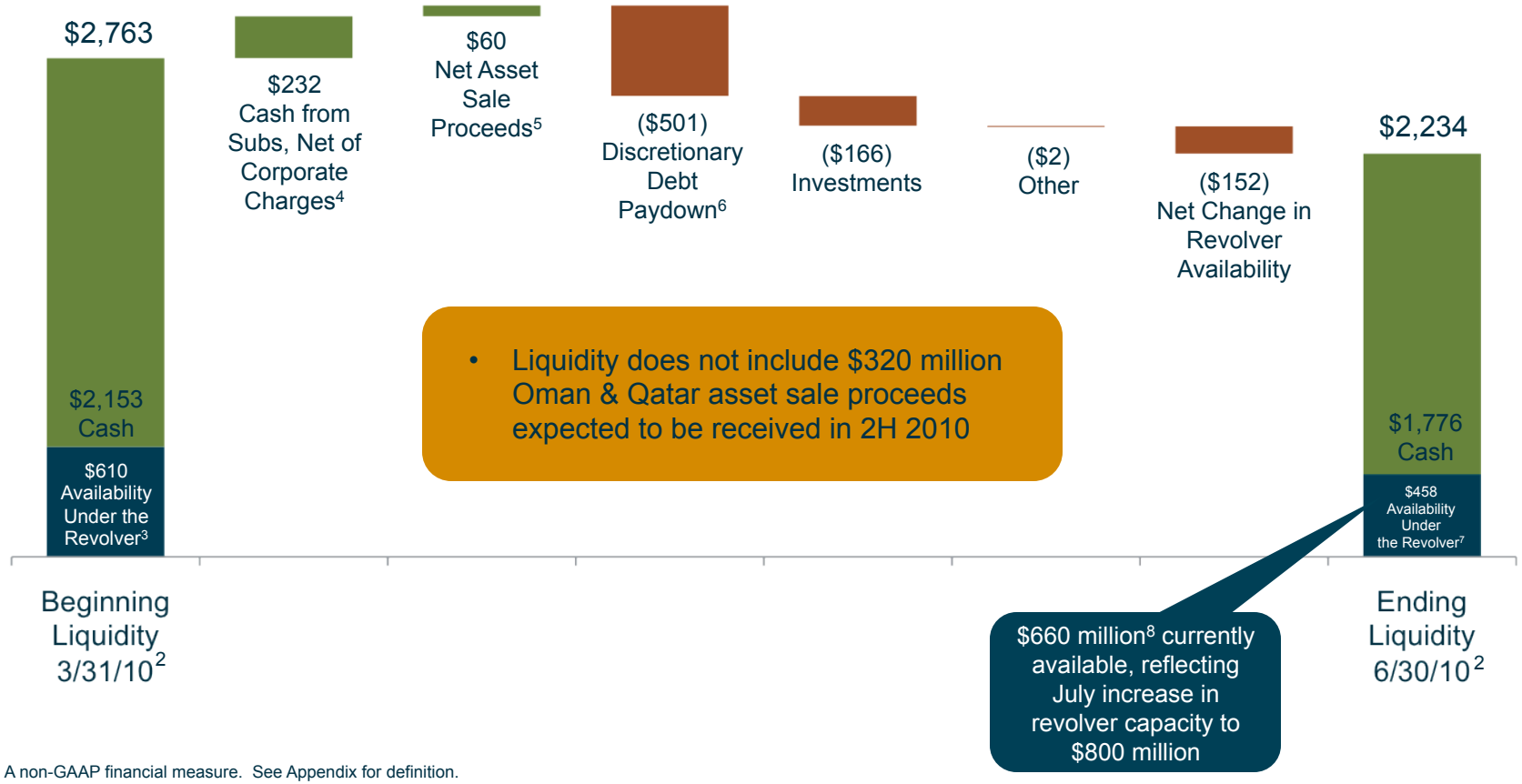
270 MW Coal Plant
Expected COD: 2H 2012

- AES Gener & Puchuncavi Municipality reached a settlement agreement
- Obtained new construction permit



Parent Company Liquidity[1] is Being Deployed to Create Shareholder Value

$ in Millions



1. A non-GAAP financial measure. See Appendix for definition.
2. See Appendix for reconciliation of Parent Liquidity.
3. Total revolver commitment of $785 million, net of $175 million letter of credit issued as of March 31, 2010.
4. Net of distributions from subsidiaries ($350 million), return of capital from subsidiaries ($131 million), corporate overhead and development ($75 million) and corporate interest ($174 million).
5. Includes Pakistan assets.
6. Includes $406 million to retire Second Lien Notes (plus premium) and $95 million to retire Chigen (a subsidiary in China) bonds.
7. Total revolver commitment of $605 million, net of $147 million letter of credit issued as of June 30, 2010.
8. As of July 30, 2010.

Our Development, Operational & Commercial Skills Deliver Results

M&A/Refurbishment Examples

IRR 16%

Invested $213 million in 2007 to acquire 460 MW pet coke-fired facility in Mexico

- Improved plant availability from 77% to 88%



IRR >18%

Invested $160 million in 2010 to acquire 1,246 MW gas-fired facility in Northern Ireland; 600 MW CCGT, 646 MW Peakers

- Majority of output is contracted through 2018
- All-in cost with Peakers $128/KW; without Peakers $267/KW

IRR >20%

Acquired 4,000 MW of installed capacity in Kazakhstan in 1996

- Through a series of technical improvements, increased operating capacity from 800 MW to approximately 2,500 MW
- Sold in 2008 for $1.3 billion[1], resulting in a net gain of $905 million

Greenfield Examples

IRR 22%

Invested $324 million in three Greenfield projects in Oman, Pakistan & Qatar totaling 1,939 MW

- Announced asset sales in 2009/2010 for total price of $389 million[2]

IRR 18%

Core Power

- Invested AES equity of $84 million in 2007 in a 270 MW coal-fired plant in Chile
- Completed in 2010 – on time and on budget



IRR 13-17%

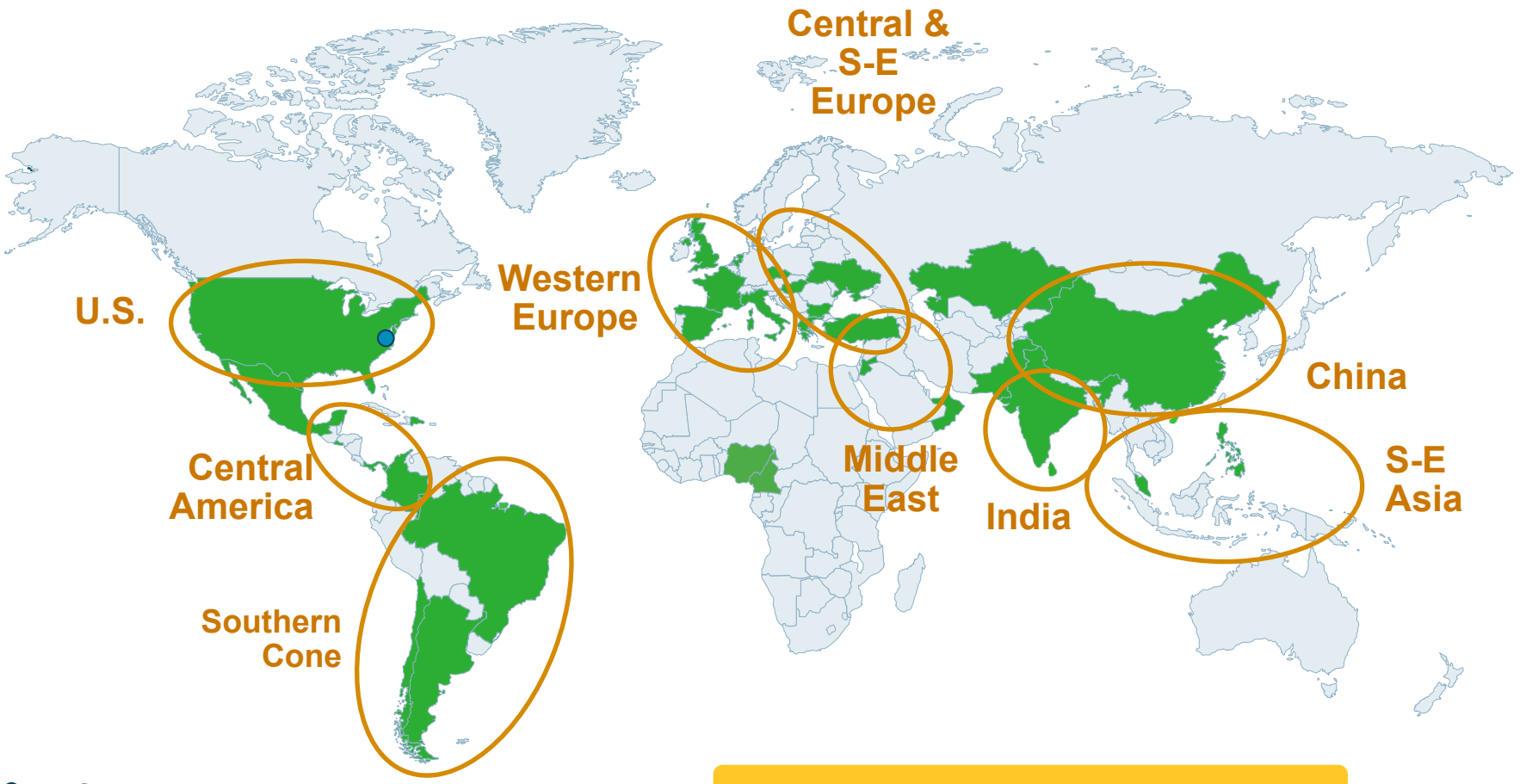
Renewables (wind and solar): 1,792 MW in operations[3]

- Invested AES equity of $574 million since 2005
- Distributions to AES Corporation expected to be approximately $80 million in 2010



1. Including $182 million performance incentive bonus.
2. Subject to customary closing adjustments.
3. Includes 1,755 MW Wind and 37 MW Solar; 1,348 MW Wind and 19 MW Solar on a proportional basis.

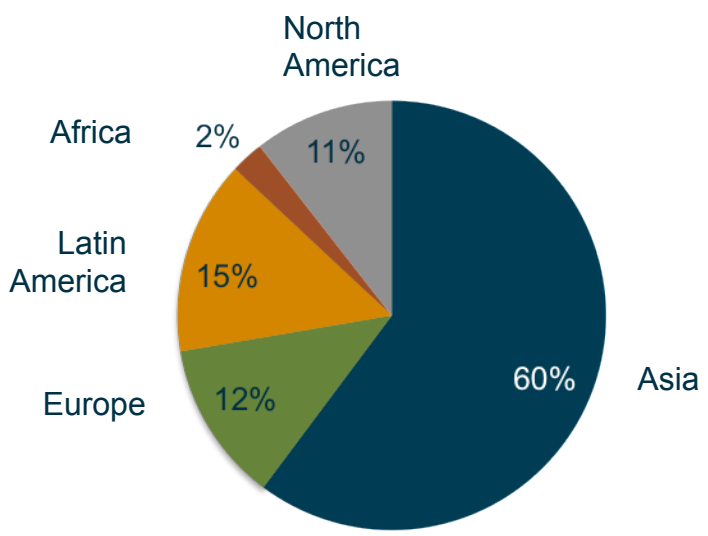
AES Competitive Advantage: Leverage Our Global Platform, Knowledge of Local Markets & Liquidity Position to Pursue Development in High Growth Regions



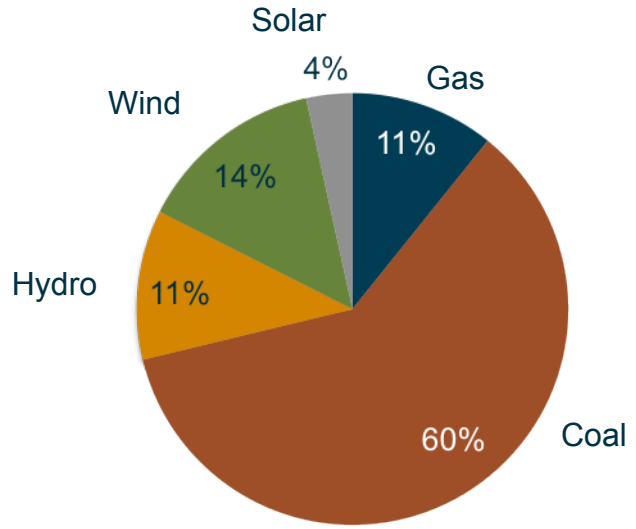
Currently only 9% of AES Operating Capacity is in Asia, But 60% of Our Development Pipeline is Located There

AES' Advanced Development Pipeline is Aligned with Global Market Demand Growth

Advanced Development Pipeline by Geography
9,000 MW



Advanced Development Pipeline by Fuel Type
9,000 MW



Advancing Our Development Pipeline – Recent Events

Northern Ireland

August 2010: Acquired 1,246 MW gas-fired Ballylumford project in Northern Ireland

- Largely-contracted, with fuel pass-throughs
- AES investment of approximately $160 million



China

June 2010: Acquired 35% interest in China small hydro joint venture; additional 14% pending Chinese government approvals and projected to close by December 31, 2010

- Increases AES' hydropower capacity in China from 25 MW to 266 MW in operation
- AES equity requirement of approximately $49 million total



Poland and UK

April-May 2010: Acquired wind development pipeline of more than 1,000 MW in Poland and UK

- Includes 358 MW advanced development pipeline, expected to close before December 2011
- AES equity requirement of approximately $575 million to complete pipeline, including $200 million relating to the advanced pipeline



Vietnam

April 2010: Signed 25-year Power Purchase Agreement for 1,200 MW coal-fired plant in Vietnam

- USD-denominated tariff, with fuel pass-throughs
- Expected financial close 1H 2011 and commercial operations in 2H 2014
- AES equity requirement of approximately $400 million



Italy

April-May 2010: Raised $273 million long-term non-recourse financing to build 51 MW solar PV projects in Italy

- Commercial operations projected in 2H 2010
- Long-term contracts



Note: Some of these examples may not close as anticipated due to uncertainty inherent in the development process.

Accelerating Development Pipeline: Types of Projects Likely to Reach Financial Close in 2010-2011

	Location	MW	Fuel	Expected Financial Close	Expected COD	AES Equity $ in Millions
Wind						
USA	CA/WV	148	Wind	2H 2010-2011	2H 2011-2012	$105
Europe	Poland/UK	358	Wind	2H 2010-1H 2011	2H 2011-2H 2012	$200
Solar						
Various (50%)	India/Italy/France/ Spain/U.S.	250	Solar	2H 2010-2011	2H 2011-2012	$110
Hydro – Latin America						
Alto Maipo (71%)	Chile	532	Hydro	1H 2012	1H 2016	$400
Thermal – Asia						
Mong Duong (90%)	Vietnam	1,200	Coal	1H 2011	2H 2014	$400
OPGC II[1] (55%)	India	1,320	Coal	2H 2011	2H 2015	$200
Total		***3,808***				***$1,415***

Note: The table set forth above includes examples of some of the more advanced greenfield projects in our pipeline. Other projects not currently on the table, whether developed through acquisitions or otherwise, may be brought online before these projects. In addition, some of these examples may not close as anticipated due to uncertainty inherent in the development process.

1. Expected Financial Close and expected COD have been extended by six months.

Balanced Capital Allocation: Maximize Shareholder Value on a Per Share Basis, While Reducing Risk & Overall Cost of Equity

Return Capital to Shareholders

Stock Buyback

- When stock is trading at a significant discount to intrinsic value

Dividend

- A medium- to long-term possibility

Growth

Investing in Value-Accretive Projects

- Goal is to earn at least 200–300 basis point spread over cost of equity
- Various factors, such as country risk and project risk, are priced in to determine project-specific hurdle rates
- Targeting select opportunities including expansion around existing footprint as well as new high growth markets
- Greenfield development pipeline (including renewables) and M&A opportunities that meet criteria described above
- Pursuing opportunistic sale of assets at attractive returns with proceeds available for future capital allocation

Reduce Risk

Debt Paydown

- To increase financial flexibility and create future borrowing capacity
- To reduce financial risk

…And We Continue to Execute on Our Balanced Capital Allocation Strategy as the Examples Below Demonstrate

Stock Buyback

- Authorized $500 million stock buyback on July 7, 2010
- Through October 29th, 7.6 million shares repurchased at average share price of $11.84 (total $90 million, including 6.1 million shares or $75 million since September 30th)

Investing in Value-Accretive Projects

- $160 million for 100% interest in 1,246 MW Ballylumford natural gas-fired project in Northern Ireland – closed in August 2010
- $49 million for 49% interest in 241 MW of hydro plants in China (35% currently; additional 14% interest expected to close by year-end)
- Acquired 1,000 MW wind development pipeline in Poland & UK with 358 MW expected to begin construction in 2011 – requires $200 million AES equity
- Sold three businesses in Oman, Pakistan & Qatar for $389 million

Debt Paydown

- $1 billion discretionary debt retirements[1]
  - Annualized pre-tax interest savings of $68 million
  - Provides additional borrowing capacity

1. Includes: $400 million of 8.75% second lien notes retired at 1.5% premium in May; $95 million to retire 8.25% Chigen bonds at par in June; $214 million of 9.375% senior unsecured notes that matured in September; and $290 million of 8.75% second priority senior secured notes redeemed at 1.5% premium in October.

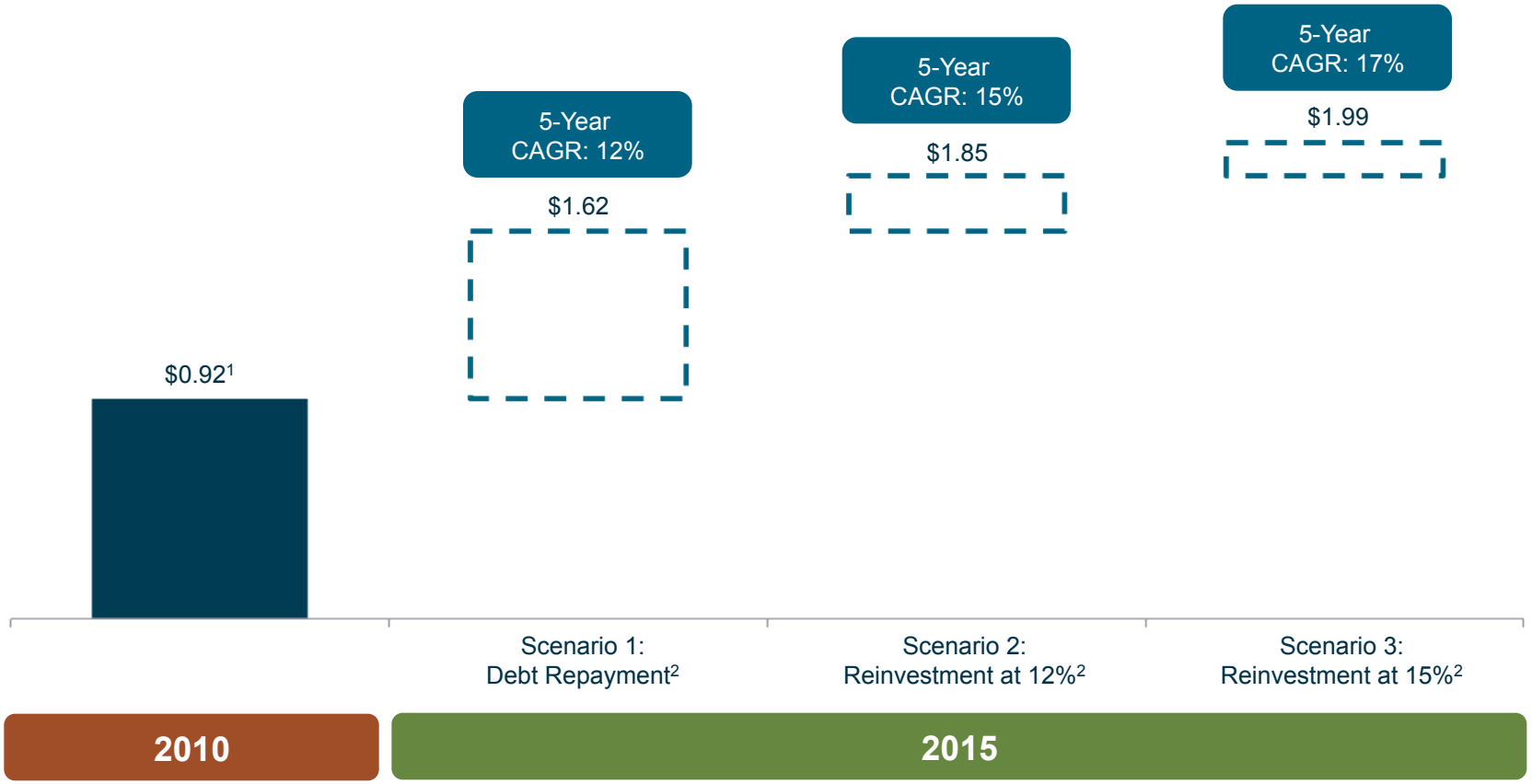
Assessing the Opportunity: AES Has Several Options Available to Deploy Current On-Hand Liquidity With Strong Return Potential

- Following are several scenarios:
  - In Scenario 1: Debt is repaid at 10% premium to par
  - In Scenarios 2 & 3: Cash balance reinvested in new assets; free cash flow[1] reinvested 50/50 in new assets and debt repayment. Earnings contribution is based on an equal blend of M&A, renewables and core power greenfield projects; two-year lag is assumed before reinvested free cash flow[1] starts generating a return

	Scenario 1: Debt Repayment	Scenario 2: Reinvestment at 12% return	Scenario 3: Reinvestment at 15% return
No Significant Change in Existing 2010 Base Business Through 2015	✓	✓	✓
Existing Construction Program to Add $0.16 Incremental EPS In First Full Year of Operations	✓	✓	✓
Reinvest $2 Billion Proforma Cash[2]	5.5% after-tax return	12% after-tax return	15% after-tax return
Reinvest Annual Proportional Free Cash Flow[1] of $1.2 Billion[3]	5.5% after-tax return	50% debt repayment and 50% reinvestment	50% debt repayment and 50% reinvestment

1. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. Includes $1.6 billion proceeds from CIC equity issuance and $390 million from Middle East and Pakistan asset sales.
3. Average annual proportional free cash flow assumed for this analysis. 2010 Guidance provided on August 6, 2010 is $900-$1,100 million.

Deploying Excess Cash in Attractive Assets Produces the Highest EPS Growth Rates – Current Stock Price Does Not Reflect the Growth Potential



Even at 12% returns, the earnings growth is compelling

1. $0.92 is mid-point of 2010 Adjusted EPS guidance given on August 6, 2010. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. For 2015, it is assumed that Adjusted EPS and Diluted EPS are the same. See Slide 19 for detailed description of scenarios.

Key Takeaways

- Performance through June 30, 2010 puts us on pace to meet our 2010 financial goals
- Construction program on track to drive earnings and cash flow improvement in 2011 and 2012
- Strong liquidity allows us to remain flexible and positions us well to capitalize on attractive opportunities to add shareholder value
- Strategy reflects balanced approach to capital allocation
- Making good progress on advancing our development pipeline

Appendix

- Projects Under Construction — Slide 23
- Reconciliations — Slides 24-27
- 2010 Guidance — Slide 28
- Assumptions & Definitions — Slides 29-31

1,927 MW Under Construction as of October 2010

	Generation (Thermal)			Generation (Renewables)					
	Bulgaria	**Chile**	**Chile**	Turkey	China	France	Panama	Italy	U.S.-WV
Project	Maritza East	Angamos	Campiche	I.C. Energy JV[1]	Guohua Energy JV[2]	InnoVent[3]	Changuinola I	AES Solar[4]	Laurel Mountain
% Owned	100	71	71	51	49	40	83	50	100
Type	Coal	Coal	Coal	Hydro	Wind	Wind	Hydro	Solar	Wind
Gross MW	670 MW	518 MW	270 MW	18 MW	49.5 MW	29 MW	223 MW	51 MW	98 MW
Expected Commercial Operations Date	2H 2010	2H 2011	2H 2012	2H 2010	2H 2010	2011	1H 2011	2010	2H 2011

- All funding secured to complete construction program
- More than 90% of capacity is under long-term contacts
- We have reached a significant milestone in resuming construction of our 270 MW Campiche coal plant in Chile
  - Construction was suspended in June 2009 due to a court ruling invalidating the environmental permit. A new environmental permit has been issued and an agreement reached with the Municipality and other local groups opposed to the project.

- Remaining 1,657 MW to be completed through 2011

1. Joint Venture with I.C. Energy. I.C. Energy plant: Kumkoy Samsun.
2. Joint Venture with Guohua Energy Investment Co. Ltd. Guohua Energy plant: Chenq Qi.
3. InnoVent plants: Allery, Audrieu, Lamballe, Lefaux and Vron.
4. AES Solar projects: Cellino San Marco and Torchiarolo.

Reconciliation of 2009 Proportional Gross Margin[1]

$ in Millions	Consolidated	Adjustment Factor[2]	Proportional[1,2]
Latin America Generation	$505	-	$505
Latin America Utilities	$1,783	($1,345)	$438
North America Generation	$474	($10)	$464
North America Utilities	$241	-	$241
Europe Generation	$189	($1)	$188
Asia Generation	$186	($54)	$132
Corp & Other	$117	($40)	$77

1. A non-GAAP financial measure. See "definition."
2. The AES Corporation (the "Company") is a holding company that derives its cash flows from the activities of its subsidiaries, some of which may not be wholly-owned by the Company. Accordingly, the Company has presented certain financial metrics which are defined as Proportional (a non-GAAP financial measure). See "definition."

Reconciliation of Adjusted Earnings Per Share[1]

	Second Quarter		YTD	
	2010	2009	2010	2009
Diluted EPS from Continuing Operations	**$0.17**	**$0.43**	**$0.42**	**$0.74**
Derivative Mark-to-Market (Gains)/Losses[2]	($0.01)	-	($0.03)	$0.03
Currency Transaction (Gains)/Losses[3]	$0.06	($0.05)	$0.08	($0.01)
Disposition/Acquisition (Gains)/Losses	-[4]	($0.14)[5]	-[4]	($0.17)[6]
Impairment Losses	-	-	-	$0.02[7]
Debt Retirement (Gains)/Losses	$0.01[8]	-	$0.01[8]	-
Adjusted Earnings per Share[1]	**$0.23**	**$0.24**	**$0.48**	**$0.61**

1. A non-GAAP financial measure as reconciled above. See "definitions."
2. Derivative mark-market (gains)/losses were net of income tax per share of $0.00 in the three months ended June 30, 2010 and 2009, and of ($0.02) and $0.01 for the six months ended June 30, 2010, and 2009, respectively.
3. Unrealized foreign currency transaction (gains)/losses were net of income tax per share of ($0.01) and $0.00 in the three months ended June 30, 2010 and 2009, respectively, and of ($0.01) and $0.01 in the six months ended June 30, 2010 and 2009, respectively.
4. The Company has not adjusted the gain from the sale of its investment in CEMIG, disclosed in Note 6 – Investments In and Advances to Affiliates in the Company's Form 10-Q, in its determination of adjusted EPS because the gain was recognized by an equity method investee. The Company does not adjust for transactions of its equity method investees in its determination of adjusted EPS.
5. Amount includes Kazakhstan net gain of $98 million, or $0.14 per share, related to the termination of a management agreement.
6. Amount includes Kazakhstan net gain of $98 million, or $0.15 per share, related to the termination of a management agreement as well as a gain of $13 million, or $0.02 per share, related to the reversal of a withholding tax contingency. There were no taxes associated with these transactions.
7. Amount includes nontaxable impairment of the Company's investment in "blue gas" (coal to gas) technology of $10 million, or $0.02 per share. There was no tax benefit associated with this impairment.
8. Amount includes loss on retirement of Parent Company debt of $9 million ($6 million, or $0.01 per share, net of income tax).

Reconciliation of YTD Second Quarter Gross Margin, Operating Cash Flow & Free Cash Flow, Including Proportional Metrics

$ in Millions	YTD Second Quarter 2010		
	Consolidated	Adjustment Factors[1]	Proportional[1,2]
Gross Margin	$1,968	($778)	$1,190
Operating Cash Flow	$1,416	($635)	$781
Free Cash Flow[2]	$1,101	($543)	$558

	YTD Second Quarter 2009		
	Consolidated	Adjustment Factors[1]	Proportional[1,2]
Gross Margin	$1,652	($644)	$1,008
Operating Cash Flow	$874	($266)	$608
Free Cash Flow[2]	$589	($195)	$394

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2. A non-GAAP financial measure. See "definitions".

Reconciliation of Subsidiary Distributions[1] & Parent Liquidity[2]

$ Millions

	Quarter Ended			
	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Total Subsidiary Distributions[1] to Parent & QHCs[3]	$350	$303	$296	$202
Total Return of Capital Distributions to Parent & QHCs[3]	$131	$21	$13	$134
Total Subsidiary Distributions[1] & Returns of Capital to Parent	**$481**	**$324**	**$309**	**$336**

Parent Company Liquidity[2]	Balance as of			
	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Cash at Parent & QHCs[3]	$1,776	$2,153	$677	$707
Availability Under Credit Facilities	$458	$610	$581	$701
Ending Liquidity	**$2,234**	**$2,763**	**$1,258**	**$1,408**

1. See “definitions”.
2. A Non-GAAP financial measure. See “definitions”.
3. Qualified Holding Company. See “assumptions”.

2010 Guidance

$ in Millions, Except Earnings Per Share	2010 Updated Guidance (as of 8/6/10)		
	Consolidated	Adjustment Factors[1]	Proportional[1,2]
Income Statement Elements			
Gross Margin	$3,700-$3,900	$1,500	$2,200-$2,400
Adjusted Gross Margin[2]	$4,500-$4,700	$1,775	$2,725-$2,925
Diluted Earnings Per Share from Continuing Operations	$0.80-$0.85		
Adjusted Earnings Per Share Factors[2]	$0.10[3]		
Adjusted Earnings Per Share[2]	$0.90-$0.95[3]		
Cash Flow Elements			
Net Cash from Operating Activities[5]	$2,775-$2,975	$1,300	$1,475-$1,675
Operational Capital Expenditures (a)	$650-$725	$200	$450-$525
Environmental Capital Expenditures (b)	$75-$100	-	$75-$100
Maintenance Capital Expenditures (a + b)	$725-$825	$200	$525-$625
Free Cash Flow[2]	$2,000-$2,200	$1,100	$900-$1,100
Subsidiary Distributions[6]	$1,100-$1,200		
Reconciliation of Free Cash Flow[2]			
Net Cash from Operating Activities	$2,775-$2,975	$1,300	$1,475-$1,675
Less: Maintenance Capital Expenditures	$725-$825	$200	$525-$625
Free Cash Flow[2]	$2,000-$2,200	$1,100	$900-$1,100
Reconciliation of Adjusted Gross Margin[2]			
Gross Margin	$3,700-$3,900	$1,500	$2,200-$2,400
Depreciation & Amortization	$1,125-$1,225	$275	$850-$950
General & Administrative	$375	-	$375
Adjusted Gross Margin[2]	$4,500-$4,700	$1,775	$2,725-$2,925

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2. A non-GAAP financial measure as reconciled above. See "definitions."
3. Reconciliation of Adjusted EPS includes unrealized foreign currency losses of $0.08, derivative mark-to-market losses of $0.01 and losses on debt retirement of $0.01.
4. Reconciliation of Adjusted EPS includes unrealized foreign currency losses of $0.02, derivative mark-to-market losses of $0.02 and losses on debt retirement of $0.03.
5. Net cash from operating activities guidance excludes the impact of any closing adjustments that may be recorded upon the conclusion of the Middle East asset sales.
6. See "definitions."

Assumptions

Forecasted financial information is based on certain material assumptions. Such assumptions include, but are not limited to: (a) no unforeseen external events such as wars, depressions, or economic or political disruptions occur; (b) businesses continue to operate in a manner consistent with or better than prior operating performance, including achievement of planned productivity improvements including benefits of global sourcing, and in accordance with the provisions of their relevant contracts or concessions; (c) new business opportunities are available to AES in sufficient quantity to achieve its growth objectives; (d) no material disruptions or discontinuities occur in GDP, foreign exchange rates, inflation or interest rates during the forecast period; and (e) material business-specific risks as described in the Company's SEC filings do not occur individually or cumulatively. In addition, benefits from global sourcing include avoided costs, reduction in capital project costs versus budgetary estimates, and projected savings based on assumed spend volume which may or may not actually be achieved. Also, improvement in certain KPIs such as equivalent forced outage rate and commercial availability may not improve financial performance at all facilities based on commercial terms and conditions. These benefits will not be fully reflected in the Company's consolidated financial results.

The cash held at qualified holding companies ("QHCs") represents cash sent to subsidiaries of the Company domiciled outside of the U.S. Such subsidiaries had no contractual restrictions on their ability to send cash to AES, the Parent Company, however, cash held at qualified holding companies does not reflect the impact of any tax liabilities that may result from any such cash being repatriated to the Parent Company in the U.S. Cash at those subsidiaries was used for investment and related activities outside of the U.S. These investments included equity investments and loans to other foreign subsidiaries as well as development and general costs and expenses incurred outside the U.S. Since the cash held by these QHCs is available to the Parent, AES uses the combined measure of subsidiary distributions to Parent and QHCs as a useful measure of cash available to the Parent to meet its international liquidity needs. AES believes that unconsolidated parent company liquidity is important to the liquidity position of AES as a parent company because of the non-recourse nature of most of AES's indebtedness.

Definitions

Non-GAAP Financial Measures

- Adjusted earnings per share (a non-GAAP financial measure) is defined as diluted earnings per share from continuing operations excluding gains or losses of the consolidated entity due to (a) mark-to-market amounts related to derivative transactions, (b) unrealized foreign currency gains or losses, (c) significant gains or losses due to dispositions and acquisitions of business interests, (d) significant losses due to impairments, and (e) costs due to the early retirement of debt. AES believes that adjusted earnings per share better reflects the underlying business performance of the Company, and is considered in the Company's internal evaluation of financial performance. Factors in this determination include the variability due to mark-to-market gains or losses related to derivative transactions, currency gains or losses, losses due to impairments and strategic decisions to dispose or acquire business interests or retire debt which affect results in a given period or periods. Adjusted earnings per share should not be construed as an alternative to earnings per share, which is determined in accordance with GAAP.
- Adjusted Gross Margin (a non-GAAP financial measure) is defined as gross margin plus depreciation and amortization less general and administrative expenses. AES believes adjusted gross margin is a useful measure for evaluating and comparing the operating performance of its businesses because it includes the direct operating costs of its business including overhead related expenses and excludes potential differences caused by variations in capital structures affecting interest income and expense, tax positions, such as the impact of changes in effective tax rates and the impact of depreciation and amortization expense.
- Free cash flow (a non-GAAP financial measure) is defined as net cash from operating activities less maintenance capital expenditures (including environmental capital expenditures). AES believes that free cash flow is a useful measure for evaluating our financial condition because it represents the amount of cash provided by operations less maintenance capital expenditures as defined by our businesses, that may be available for investing or for repaying debt. Free cash flow should not be construed as an alternative to net cash from operating activities, which is determined in accordance with GAAP.
- Parent Company Liquidity (a non-GAAP financial measure) is defined as cash at the Parent Company plus availability under corporate credit facilities plus cash at qualified holding companies ("QHCs"). AES believes that unconsolidated Parent Company liquidity is important to the liquidity position of AES as a Parent Company because of the non-recourse nature of most of AES' indebtedness.
- Subsidiary Liquidity (a non-GAAP financial measure) is defined as cash and cash equivalents and bank lines of credit at various subsidiaries.
- The AES Corporation (the "Company") is a holding company that derives its income and cash flows from the activities of its subsidiaries, some of which are not wholly-owned by the Company. Accordingly, the Company has presented certain financial metrics which are defined as Proportional (a non-GAAP financial measure) to account for the Company's ownership interest.

  Proportional metrics present the Company's estimate of its share in the economics of the underlying metric. The Company believes that the Proportional metrics are useful to investors because they exclude the economic share in the metric presented that is held by non-AES shareholders. For example, Operating Cash Flow is a GAAP metric which presents the Company's cash flow from operations on a consolidated basis, including operating cash flow allocable to noncontrolling interests. Proportional Operating Cash Flow removes the share of operating cash flow allocable to noncontrolling interests and therefore may act as an aid in the valuation the Company.

  Proportional metrics are reconciled to the nearest GAAP measure. Certain assumptions have been made to estimate our proportional financial measures. These assumptions include: (i) the Company's economic interest has been calculated based on a blended rate for each consolidated business when such business represents multiple legal entities; (ii) the Company's economic interest may differ from the percentage implied by the recorded net income or loss attributable to noncontrolling interests or dividends paid during a given period; (iii) the Company's economic interest for entities accounted for using the hypothetical liquidation at book value method is 100%; (iv) individual operating performance of the Company's equity method investments is not reflected and (v) all intercompany amounts have been excluded as applicable.

Definitions, Cont'd.

Subsidiary Distributions

- Subsidiary Distributions should not be construed as an alternative to Net Cash Provided by Operating Activities which is determined in accordance with GAAP. Subsidiary Distributions are important to the Parent Company because the Parent Company is a holding company that does not derive any significant direct revenues from its own activities but instead relies on its subsidiaries' business activities and the resultant distributions to fund the debt service, investment and other cash needs of the holding company. The reconciliation of difference between the Subsidiary Distributions and Net Cash Provided by Operating Activities consists of cash generated from operating activities that is retained at the subsidiaries for a variety of reasons which are both discretionary and non-discretionary in nature. These factors include, but are not limited to, retention of cash to fund capital expenditures at the subsidiary, cash retention associated with non-recourse debt covenant restrictions and related debt service requirements at the subsidiaries, retention of cash related to sufficiency of local GAAP statutory retained earnings at the subsidiaries, retention of cash for working capital needs at the subsidiaries, and other similar timing differences between when the cash is generated at the subsidiaries and when it reaches the Parent Company and related holding companies.