The AES Corporation

November 2011



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 Slide 30 and 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 AES' 2010 Annual Report on Form 10-K and the Form 10-Q for the quarters ended March 31, 2011 and September 30, 2011, 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.

Sharpening Our Focus in 2011: Shifting into High Gear for 2012

- **We are executing a comprehensive plan to create shareholder value**
- **In just 60 days since our new leadership transition, we have achieved positive results with a renewed focus on delivering value by:**

1. **Narrowing geographic focus:**
   - Took advantage of attractive opportunities to exit non-core assets/markets
   - Sold Czech Republic Generation and Brazil Telecom businesses
   - Selling Spain CCGT and Argentina Distribution businesses
2. **Optimizing profitability:**
   - Implemented new organizational structure to accelerate cost reduction program
3. **Improving capital structure and returning cash to shareholders:**
   - Announced intent to initiate a dividend in Q3 2012
   - Continued share buyback program
   - Goal is to achieve strong BB metrics

Focused Growth Strategy – Fewer Markets, Better Results



Simplified & Focused Investments

- Fewer countries, better results
- Less complexity in analyzing portfolio
- Sell non-strategic investments prudently

Improved Profitability

- Greater scale within markets
- Leverage our competitive advantages
- More efficient business development spend
- Higher success rate
  - Platform expansion
  - M&A

Focused Growth Strategy – Fewer Markets, Better Results: Chile

Competitive Advantages

- **Generation**
  - Significant market participant with 4,800 MW of generation capacity
  - Successful in-country development and construction experience



5-Year Growth Focus

- Executing on more than 1,000 MW of hydroelectric and coal platform expansion projects
- Maintain existing and develop additional options for gas, hydroelectric and renewable generation projects

Focused Growth Strategy – Fewer Markets, Better Results: Brazil

Competitive Advantages

- **Utilities**
  - 14 years of experience operating power distribution and generation businesses, partnering with state-owned development bank



5-Year Growth Focus

- Utilize Brasiliana as a growth platform
- Capture platform expansion opportunities to expand generation fleet
- Pursue renewable projects

Focused Growth Strategy – Fewer Markets, Better Results:
United States

Competitive Advantages

- **Utilities & Generation**
  - IPL among the lowest cost utilities in Midwest
  - Platform expansion in attractive markets
  - Existing fleet has limited merchant generation exposure



5-Year Growth Focus

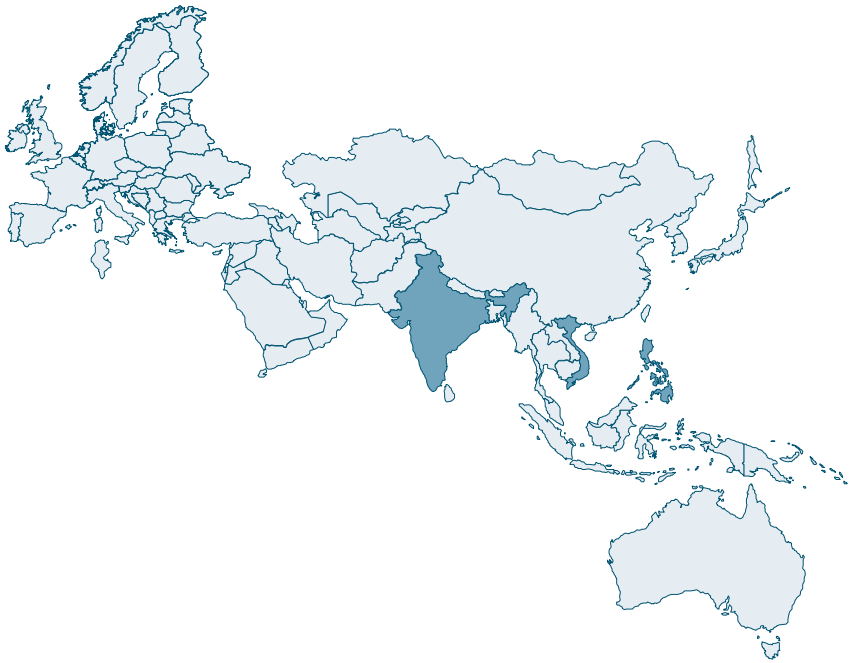
- Integrate DP&L acquisition and demonstrate performance[1]
- Investment in rate-based environmental capex
- Capitalize on 3,500 MW Southland (US-CA) re-powering option
- Achieve COD of 300 MW-500 MW wind and solar

1. There are a number of conditions precedent and termination rights to the transaction closing. If the transaction closes, actual timing could differ from estimates provided here. See risk factors in the Company's Form 10-Q for the quarter ended March 31, 2011 for discussion of risks associated with the transaction.

Focused Growth Strategy – Fewer Markets, Better Results:
Southeast Asia & India

Competitive Advantages

- **Generation**
  - Existing platform expansion sites provide cost and "speed to market" advantage
  - Proven local asset turnaround experience



5-Year Growth Focus

- Complete construction of 1,200 MW Mong Duong II (Vietnam) project
- Capitalize on portfolio expansion projects: 600 MW in the Philippines and 1,200 MW in India

Focused Growth Strategy – Fewer Markets, Better Results: Turkey

Competitive Advantages

- **Generation**
  - In-country development and operations experience
  - Turnaround experience with old and inefficient plants
  - Experienced team progressing 1,000 MW of greenfield development and analyzing privatization and M&A opportunities
  - Partnering with largest domestic industrial firm



5-Year Growth Focus

- Capitalize on potential new business opportunities:
  - 16 GW of privatization
  - 15 GW of M&A
  - 7 GW of greenfield
- JV target is 3,500 MW of operating assets

Focused Growth Strategy – Fewer Markets, Better Results:
European Renewables

Competitive Advantages

- **Generation**
  - Up to 1 GW of existing development pipeline in the UK & Poland
  - Wind development, financing, construction and operations expertise

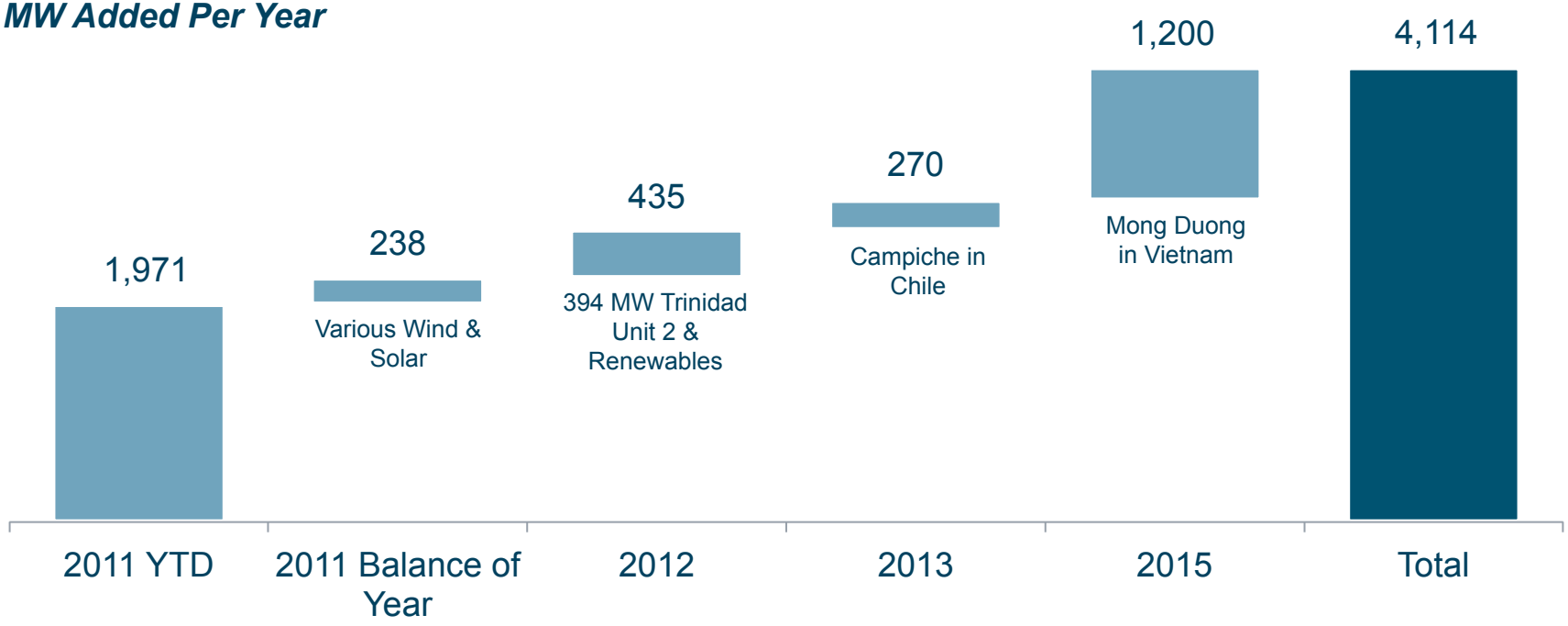


5-Year Growth Focus

- Executing on existing development pipelines in the UK & Poland
- Poland: Projected 9 GW of demand for new wind generation
- UK: Projected 18 GW of demand for new wind generation with switch to feed-in tariff structure expected

Focused Growth Strategy: Completing Current Construction Program (4,114 MW by 2H 2015)[1]

MW Added Per Year



Compared to their 2011 contributions, major construction projects completed in 2011[2] generate an incremental ~$0.18 earnings per share and ~$180 million of proportional free cash flow[3,4] in 2012

1. See Slide 25 for additional details on construction projects.
2. 2011 construction projects include: 670 MW Maritza coal-fired plant in Bulgaria, 518 MW Angamos coal-fired plant in Chile and 223 MW Changuinola hydroelectric facility in Panama.
3. A non-GAAP financial measure. See Appendix for definition and reconciliation.
4. 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. In many cases, the Company has no legal claim on these cash flows. See Appendix for full definition.

Note: The totals represent projections and there can be no assurance that we will complete construction of these projects or that completion will occur in the timeframes set forth above. For discussion of risks involved in the development process, see Item 1-A: Risk Factors – Our business is subject to substantial development uncertainties in our 2010 Form 10-K.

Focused Growth Strategy: Acquisition of DP&L Will Leverage & Expand Our U.S. Utility Platform

- Hybrid utility with well-positioned generation fleet
- Enhanced returns through synergies and tax attributes
- Builds upon our successful ownership and management of IPL
- Leverages global scale for increased purchasing power



Expected to contribute $0.05-$0.07 earnings per share and $200-$300 million of subsidiary distributions in the first year after closing, excluding acquisition costs

Focused Growth Strategy: DPL Acquisition On Track to Close by Q4 2011/Q1 2012[1]

Progress		
	Filed	Approved/Completed
Hart-Scott-Rodino	✓	✓
$1.05 Billion Senior Secured Term Loan		✓
$1.00 Billion Senior Unsecured Notes		✓
FERC	✓	
PUCO	✓	
DPL Shareholder Vote	✓	✓
$1.25 Billion DPL Holdco Financing		✓

1. There are a number of conditions precedent and termination rights to the transaction closing. If the transaction closes, actual timing could differ from estimates provided here. See risk factors in the Company's Form 10-Q for the quarter ended March 31, 2011 for discussion of risks associated with the transaction.

Selling Non-Core Assets/Exiting Non-Strategic Markets: Taking Advantage of Attractive Market Opportunities

Delivering Results: $869 million in Asset Sales Signed or Closed in Last 60 Days			
Business	**Net Proceeds**	**Status**	**Highlights**
Brazil Telecom	$618[1]	Closed in October 2011	• 10.7x EBITDA multiple • Proceeds to be used to pay down expensive non-recourse debt
Cartagena (Spain)	$234[2]	Expected to close by the end of 2011	• Once closed, net gain of more than $100 million • No expansion potential
Bohemia (Czech Republic)	$12	Closed in September 2011	• Completed exit from non-core market
Argentina Distribution (Edelap and EDES)	$9	Expected to close by the end of 2011	• Non-performing business

1. Sold by Brasiliana. AES owns 46% of Brasiliana.
2. Once closed, sold 80% of AES' ownership interest to GDF Suez. GDF Suez has an option to buy the remaining 20% interest for an additional $38 million.

A Leaner, More Nimble AES: Optimizing Profitability

- While we are focused on driving growth and value across key markets, we are also looking inward to enhance savings, profitability and efficiencies
- More efficient company focused on achieving enhanced business-level results and meeting commitments
  - Reducing overhead
    - New organizational structure
    - Focused development efforts
  - Improving profitability of operating businesses: leveraging synergies of business lines
    - Revenue enhancement initiatives
    - Cost reduction initiatives

Reducing Overhead: Delivering Results Through New Structure + Acceleration of Cost Cutting Programs

- New structure enables a more agile, nimble, efficient company and eliminates internal hurdles to growth
- Established two business lines: Generation & Utilities

- 2012 savings increased to $40-$50 million from $10-$20 million
  - Eliminating business development efforts in non-strategic markets
  - Lower corporate overhead, eliminating layers
- Targeting $100 million cost savings by end of 2013, one year earlier than previous target

Improving Utilities Profitability: Non-Technical Loss Reduction at AES Eletropaulo in Brazil

AES Eletropaulo – Energy Recovered (GWh)



AES Eletropaulo – EBITDA Improvement (US$)



Improving Generation Profitability: ESSA Transformed into Reliable Supplier of Power During Tightest Market Conditions

2007 to 2009

- As a result of Argentine gas curtailments, the plant had no access to natural gas, and thus could only operate as a back-up unit using diesel oil



379 MW CCGT in Chile

2010 to 2011

- Transformation achieved by:
  - Obtaining a duel fuel permit which secured capacity payments
  - Negotiating a settlement with gas transport companies and obtaining source of liquefied natural gas to restart natural gas-fired operations

EBITDA improvement of ~$177 million in H1 2011 compared to H1 2010[1]

1. Past performance is not an indicator of future performance.

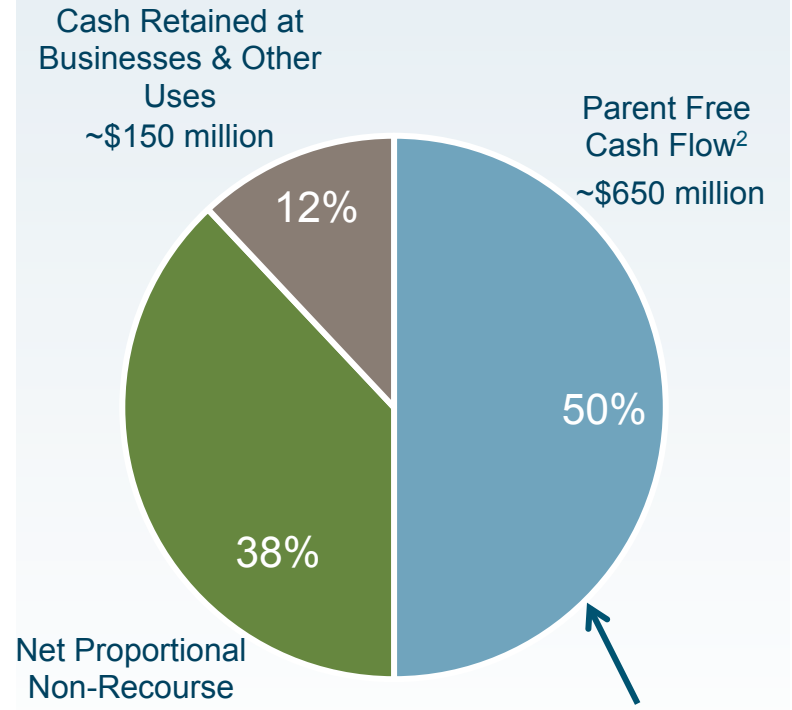
Improving Capital Structure and Returning Cash to Shareholders

- **Improving cash returns to shareholders**
  - Announced intent to initiate a dividend in Q3 2012
- **Opportunistically repurchased shares**
  - $378 million invested since July 2010
- **Strengthening balance sheet and improving credit profile**
  - Better positions us to capitalize on strategic opportunities
  - Goal is to achieve strong BB metrics

Returning Cash to Shareholders: Announced Intent to Initiate a $120 Million Annual Dividend

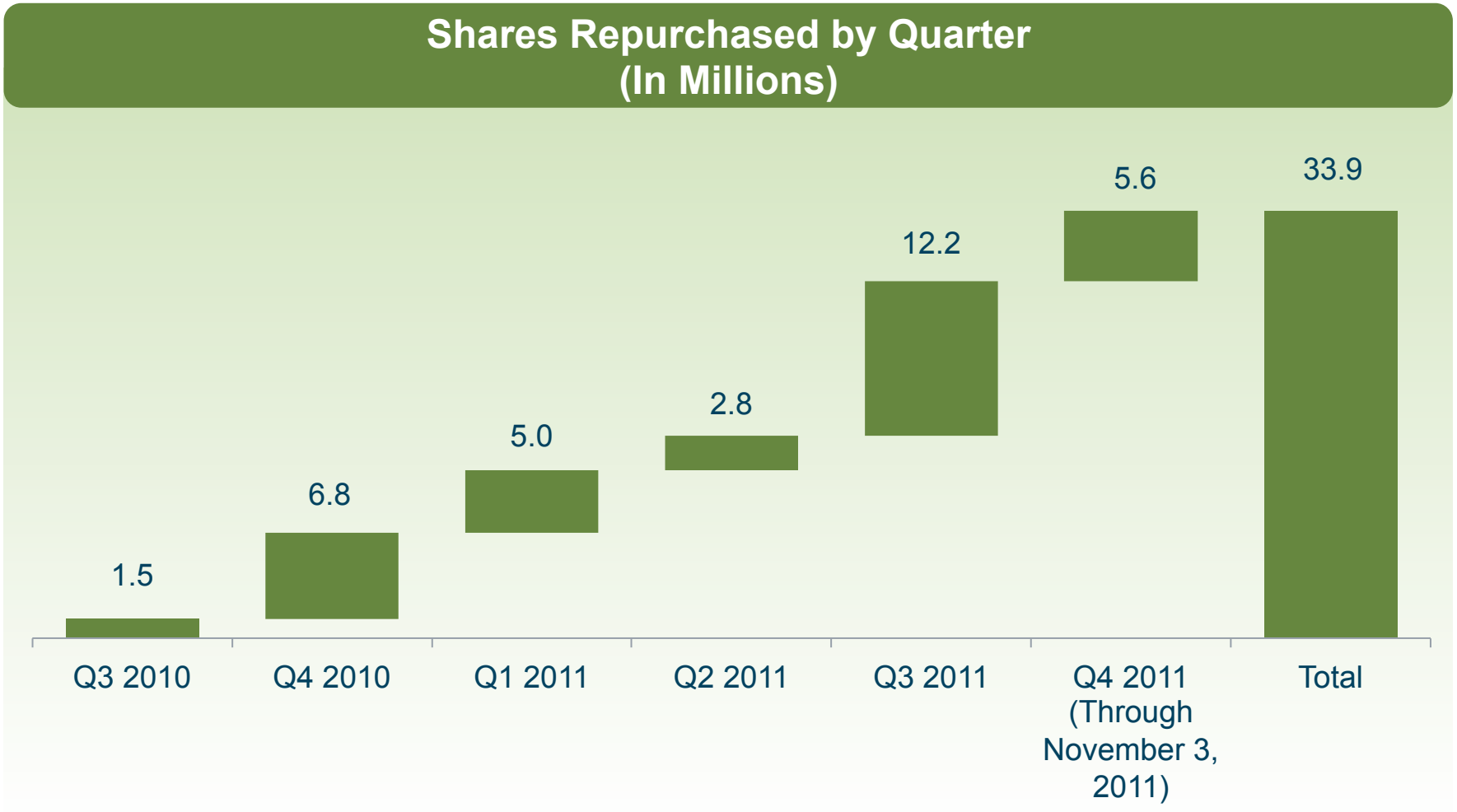
- Proportional free cash flow[2,3] is utilized for:
  - Non-recourse debt repayment
  - Retention at the project for platform expansion and other purposes
  - Parent free cash flow (discretionary use by the parent)
- Parent free cash flow[2] is discretionary cash available at the parent after parent-funded interest and G&A for:
  - Dividends and share repurchases
  - Growth investments
  - Recourse debt repayments
- Annual dividend of $120 million represents payout of 15% to 20% of 2012 parent free cash flow
  - First $30 million payment expected to be made in Q4 2012

Uses of $1.3 Billion of Proportional Free Cash Flow[1,2,3] in 2012



1. Mid-point of 2012 proportional free cash flow guidance range.
2. A non-GAAP financial measure. See Appendix for definition and reconciliation.
3. 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. In many cases, the Company has no legal claim on these cash flows. See Appendix for full definition.

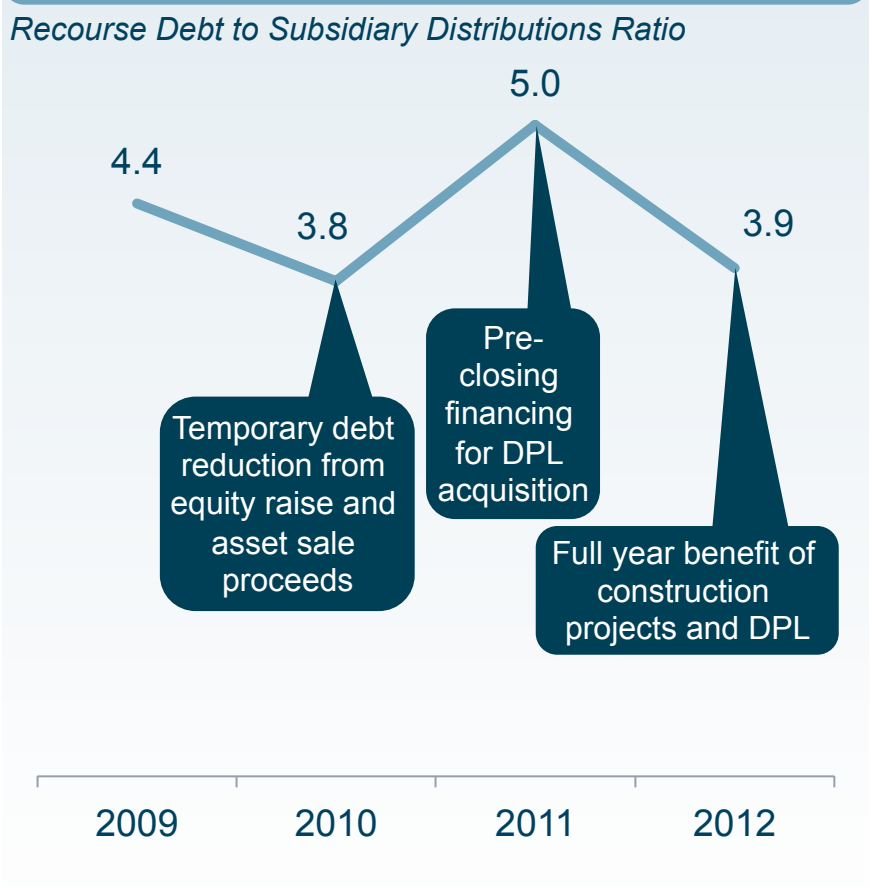
Returning Cash to Shareholders: Since July 2010, Repurchased 4% of Outstanding Shares at an Average Price of $11.16 – Invested $378 Million[1]



1. Out of the current Board authorization of $500 million.

Improving Capital Structure: Strengthening Balance Sheet and Improving Credit Profile

Credit Metrics Improve in 2012 Due to Full Year of DP&L Cash Flows[1]



- Goal is to achieve strong BB metrics
- In 2012 and beyond, credit strength is expected to benefit from:
  - Construction projects coming on-line
  - Acquisition and integration of DPL
  - Organic growth at our businesses
- Opportunities may exist for accelerated debt pay down depending on which assets are sold and price
- $22 million of recourse debt maturities in 2012 and 2013

1. 2011-2012 ratios are based on current estimates. Actual ratios may be different than those presented here.

Building on Recent Momentum, AES is Shifting into Higher Gear, Preparing for the Next Stage of Growth

- We have outlined how we plan to drive value creation for shareholders
  1. Narrowing geographic focus/fewer markets = better results
  2. Optimizing profitability
  3. Improving capital structure/returning cash to shareholders
- The three areas above support growth in earnings and cash flow
  - Adjusted EPS[1,2] grows from $1.00 in 2011 to $1.32 in 2012
  - Proportional free cash flow[1,2,3] grows from $850 million in 2011 to $1.3 billion in 2012

Delivering on our commitments → Creating value for shareholders

1. Mid-point of 2011 and 2012 adjusted earnings per share and proportional free cash flow guidance ranges.
2. A non-GAAP financial measure. See Appendix for definition and reconciliation.
3. 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. In many cases, the Company has no legal claim on these cash flows. See Appendix for full definition.

Appendix

- Construction Program — Slide 25
- 2011-2012 Guidance — Slides 26-27
- Debt Maturity Schedules — Slides 28-29
- Assumptions & Definitions — Slides 30-32

2,143 MW Under Construction as of November 3, 2011

	Generation (Thermal)			Generation (Renewables)					
	Chile	Trinidad	Vietnam	France	India	Various	U.S.-CA	China	UK
Project	Campiche	Trinidad	Mong Duong II	InnoVent[2]	Saurashtra	AES Solar[3]	Mountain View IV	Chen Qi[4]	Drone Hill
% Owned	71%	10%	51%	40%	100%	50%	100%	49%	100%
Type	Coal	Gas	Coal	Wind	Wind	Solar	Wind	Wind	Wind
Gross MW	270 MW	394 MW[1]	1,200 MW	27.3 MW	39 MW	75.4 MW	49 MW	49.5 MW	28.6 MW
Expected Commercial Operations Date	1H 2013	1H 2012	2H 2015	2H 2011	2H 2011	2011-2012	2H 2011	2H 2011	2H 2012

1. Unit 1 came on-line during Q3 2011.
2. InnoVent plants: Allery, Lamballe, Lefaux and Vron.
3. AES Solar projects: various locations.
4. Joint Venture with Guohua Energy Investment Co. Ltd.

Note: These are some of our construction projects. Other projects not currently on this Slide, whether developed through acquisitions or otherwise, may be brought on-line before these projects. In addition, some of these examples may not close or be completed as anticipated, or they may be delayed, due to uncertainty inherent in the development process.

Reconciliation of 2011 Guidance, Including Proportional Metrics

$ in Millions, Except Earnings Per Share	2011 Guidance (Given 11/14/11)[1]		
	Consolidated	Adjustment Factors[2]	Proportional[2,3]
Income Statement Elements			
Gross Margin	$4,000-$4,200	$1,550	$2,450-$2,650
Adjusted Gross Margin[3]	$4,850-$5,050	$1,850	$3,000-$3,200
Diluted Earnings Per Share from Continuing Operations	$0.63-$0.69		
Adjusted Earnings Per Share Factors[3]	$0.34[4]		
Adjusted Earnings Per Share[3]	$0.97-$1.03[4]		
Cash Flow Elements			
Net Cash from Operating Activities	$2,650-$2,850	$1,250	$1,400-$1,600
Operational Capital Expenditures (a)	$775-$850	$250	$525-$600
Environmental Capital Expenditures (b)	$75-$100	-	$75-$100
Maintenance Capital Expenditures (a + b)	$850-950	$250	$600-$700
Free Cash Flow[3]	$1,750-$1,950	$1,000	$750-$950
Subsidiary Distributions[5]	$1,200-$1,300		
Reconciliation of Free Cash Flow[3]			
Net Cash from Operating Activities	$2,650-$2,850	$1,250	$1,400-$1,600
Less: Maintenance Capital Expenditures	$850-$950	$250	$600-$700
Free Cash Flow[3]	$1,750-$1,950	$1,000	$750-$950
Reconciliation of Adjusted Gross Margin[3]			
Gross Margin	$4,000-$4,200	$1,550	$2,450-$2,650
Depreciation & Amortization	$1,250-$1,350	$300	$950-$1,050
General & Administrative	$450	-	$450
Adjusted Gross Margin[3]	$4,850-$5,050	$1,850	$3,000-$3,200

1. 2011 guidance is based on expectations for future foreign exchange rates and commodity prices as of September 30, 2011.
2. 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. In many cases, the Company has no legal claim on these cash flows. See "definitions."
3. A non-GAAP financial measure as reconciled above. See "definitions."
4. Reconciliation of Adjusted EPS includes impairment losses of $0.31, debt retirement losses of $0.04 and derivative gains of $0.01.
5. See "definitions."

Reconciliation of 2012 Guidance, Including Proportional Metrics

$ in Millions, Except Earnings Per Share	2012 Guidance (Given 11/4/11)[1]		
	Consolidated	Adjustment Factors[2]	Proportional[2,3]
Income Statement Elements			
Diluted Earnings Per Share from Continuing Operations	$1.15-$1.25		
Adjusted Earnings Per Share Factors[3]	$0.12[4]		
Adjusted Earnings Per Share[3]	$1.27-$1.37[4]		
Cash Flow Elements			
Net Cash from Operating Activities	$3,300-$3,500	$1,275	$2,025-$2,225
Operational Capital Expenditures (a)	$925-$1,025	$250	$675-$775
Environmental Capital Expenditures (b)	$100-$150	$25	$75-$125
Maintenance Capital Expenditures (a + b)	$1,025-$1,175	$275	$750-$900
Free Cash Flow[3]	$2,200-$2,400	$1,000	$1,200-$1,400
Subsidiary Distributions[5]	$1,400-$1,600		
Reconciliation of Parent Free Cash Flow			
Subsidiary Distributions[5] (c)	$1,400-$1,600		
Cash Interest (d)	$450-$500		
Cash for Development, General & Administrative and Tax (e)	$350-$400		
Parent Free Cash Flow (c – d – e)	$600-$700		
Reconciliation of Free Cash Flow[3]			
Net Cash from Operating Activities	$3,300-$3,500	$1,275	$2,025-$2,225
Less: Maintenance Capital Expenditures	$1,025-$1,175	$275	$750-$900
Free Cash Flow[3]	$2,200-$2,400	$1,000	$1,200-$1,400

1. 2012 guidance is based on expectations for future foreign exchange rates and commodity prices as of October 31, 2011.
2. 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. In many cases, the Company has no legal claim on these cash flows. See "definitions."
3. A non-GAAP financial measure as reconciled above. See "definitions."
4. Reconciliation of Adjusted EPS includes unrealized foreign currency losses of $0.03, derivative losses of $0.01 and debt retirement losses of $0.08.
5. See "definitions."

Recourse Debt & Trust Preferred Scheduled Maturities Summary[1]

$ in Millions, as of September 30, 2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2029
Senior Secured Term Loan Facility due 2018	$3	$11	$11	$11	$11	$11	$11	$979	-	-	-	-
Senior Secured Credit Facility due 2015[2]	-	-	-	-	-	-	-	-	-	-	-	-
Senior Secured Credit Facilities[2]	**$3**	**$11**	**$11**	**$11**	**$11**	**$11**	**$11**	**$979**	**-**	**-**	**-**	**-**
7.75% Senior Unsecured Notes due March 2014	-	-	-	$500	-	-	-	-	-	-	-	-
7.75% Senior Unsecured Notes due October 2015	-	-	-	-	$500	-	-	-	-	-	-	-
9.75% Senior Unsecured Notes due April 2016	-	-	-	-	-	$535	-	-	-	-	-	-
8.00% Senior Unsecured Notes due October 2017	-	-	-	-	-	-	$1,500	-	-	-	-	-
8.00% Senior Unsecured Notes due June 2020	-	-	-	-	-	-	-	-	-	$625		
7.375% Senior Unsecured Notes due 2021	-	-	-	-	-	-	-	-	-	-	$1,000	
Senior Unsecured Notes	**-**	**-**	**-**	**$500**	**$500**	**$535**	**$1,500**	**-**	**-**	**$625**	**$1,000**	**-**
6.75% Trust Preferred III due October 2029	-	-	-	-	-	-	-	-	-	-	-	$517
Trust Preferreds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**$517**
Total Recourse Debt Including Trust Preferreds[3]	**$3**	**$11**	**$11**	**$511**	**$511**	**$546**	**$1,511**	**$979**	**-**	**$625**	**$1,000**	**$517**

1. The table above sets forth the projected scheduled debt maturities with respect to AES' outstanding recourse indebtedness and trust preferred securities as of each date presented. The table assumes that: (i) AES incurs no other indebtedness, and (ii) that only scheduled repayments are made. While AES may incur other indebtedness and may make additional unscheduled repayments, it is not practicable to project the amount or timing of any such incurrence or repayments and accordingly no reconciliation is provided. Please see AES' SEC filings for further information.
2. Amount drawn as of September 30, 2011. Excludes letters of credit issued under the facilities. Amounts drawn may be repaid at any time.
3. These balances do not reflect unamortized discounts totaling approximately $30 million that are used to calculate the book value of the debt. Total excludes letters of credit and other debt guarantees. Certain amounts may vary slightly from other presentations due to rounding.

Non-Recourse Debt Maturities Summary by Line of Business

$ in Millions, as of September 30, 2011	Current Maturities (October 1, 2011 to September 30, 2012)	Q4 2011	2012	2013	2014	2015	Thereafter	Total
Total Utilities	$580	$368	$231	$296	$536	$408	$2,850	$4,689
Total Generation	$1,583	$1,264	$467	$630	$981	$677	$5,978	$9,997
Total Non-Recourse Debt	**$2,163**	**$1,632**	**$698**	**$926**	**$1,517**	**$1,085**	**$8,828**	**$14,686**

Note: The above table is unaudited and is for reference purposes only. The table provides debt amortization of the business unit and subsidiary holding company. Any of these amortization schedules could be revised or accelerated for a number of reasons, including events of default, if any. The maturities shown include unamortized discounts used to calculate the book value of debt and may deviate from local GAAP business unit financials for a number of reasons, including capital lease accounting. Certain amounts have been rounded for presentation purposes. For further details on non-recourse debt, please refer to AES Corporation's SEC filings and press releases made from time to time.

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 the Gross Domestic Product (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' 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. The GAAP measure most comparable to Adjusted EPS is diluted earnings per share from continuing operations. 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), net of reinsurance proceeds from third parties. 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) inter-segment transactions are included as applicable for the metric presented.

Definitions, Cont'd.

- 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 the 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.
- Parent Free Cash Flow should not be construed as an alternative to Net Cash Provided by Operating Activities which is determined in accordance with GAAP. Parent Free Cash Flow is equal to Subsidiary Distributions less cash used for interest costs, development, general and administrative activities, and tax payments by the Parent Company. Parent Free Cash Flow is used for dividends, share repurchases, growth investments, recourse debt repayments, and other uses by the Parent Company.