# The AES Corporation
## 47th Annual EEI Financial Conference
### November 2012



# Safe Harbor Disclosure

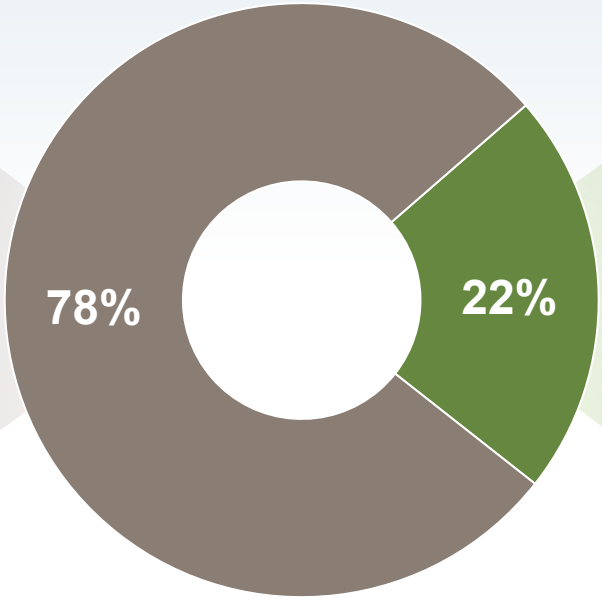
Certain statements in the following presentation regarding AES' business operations may constitute "forward-looking statements." Such forward-looking statements include, but are not limited to, those related to future earnings growth and financial and operating performance. Forward-looking statements 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 27 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" and Item 7: Management's Discussion & Analysis in AES' 2011 Annual Report on Form 10-K, 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.

# Who We Are: A Diversified Power Generation & Distribution Company

## Year-to-Date Q3 2012 Adjusted PTC[1]: $1.5 Billion Before Corporate Charges of $0.5 Billion

### Generation

- 37 Generation businesses
- 34 GW of generating capacity




### Utilities

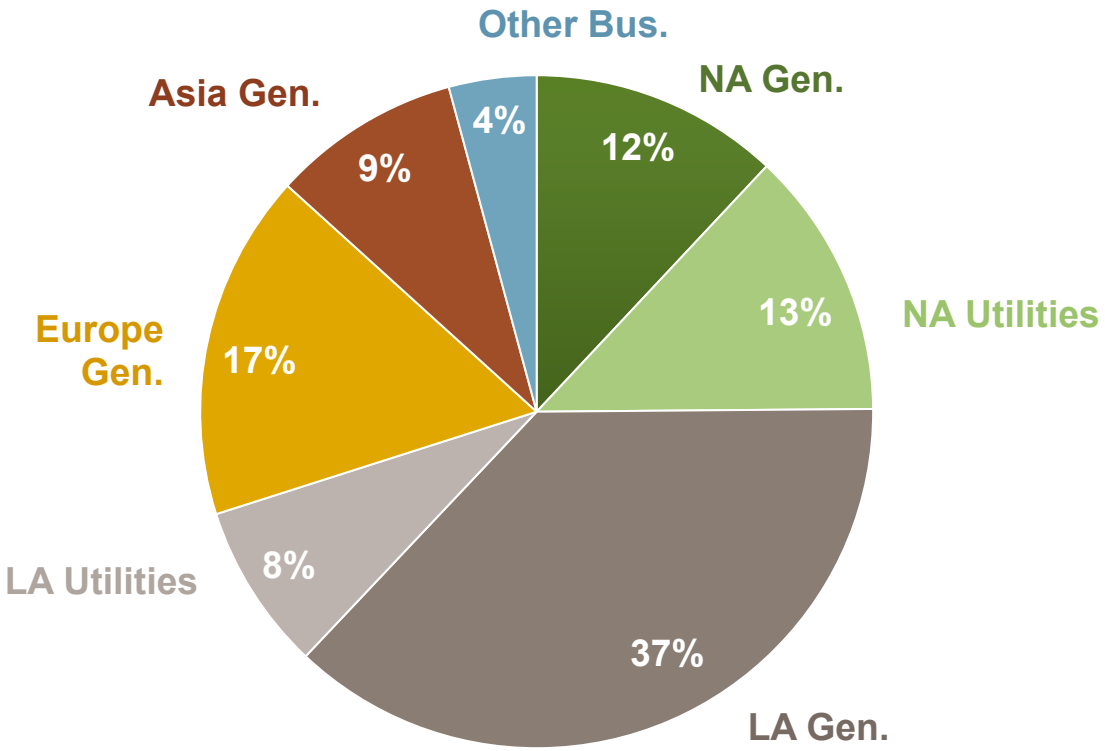
- 13 Utilities companies serving 12 million customers
- Operate 8 GW of generating capacity

**Commodity and Currency Risks Limited by Contracts & Regulatory Structures, as well as Diversification Across Geographies, Asset & Fuel Types**

1. A non-GAAP financial measure. See Appendix for definition and reconciliation.

# Adjusted Pre-Tax Contribution (PTC)[1] by Segment

## YTD Q3 2012: $1.5 Billion Before Corporate Charges of $0.5 Billion




| YTD Q3 Adjusted PTC[1] to Adjusted EPS[1] ($ in Millions) | |
|---|---|
| Adjusted PTC[1] Before Corporate Charges | $1,543 |
| Corporate Charges | ($532) |
| **Adjusted PTC[1] After Corporate Charges** | **$1,011** |
| **Adjusted EPS[1]** | **$0.91** |

Note: Adjusted EPS reflects a 31% tax rate and 763 million shares outstanding.

**Generation Businesses Account for 78% of Adjusted PTC; Latin America is the Largest Region: 45%, Followed by North America: 25%**

1.A non-GAAP financial measure. See Appendix for definition and reconciliation.

# Plan to Unlock Shareholder Value

| Management Focus | Rationale |
|---|---|
| **1. Optimize capital allocation** | ■ Invest cash to maximize total returns |
| **2. Improve profitability** | ■ Cut costs and leverage footprint |
| **3. Narrow our geographic focus** | ■ Exit non-strategic assets to simplify story<br>■ Grow in markets of choice where we have a competitive advantage |

**Focus on Delivering Attractive Risk-Adjusted Total Shareholder Return**

# Update on Plan to Unlock Shareholder Value: Optimize Capital Allocation

| Investment Alternative | Execution Since September 2011 |
|---|---|
| **1. Debt repayment** | ■ $717 million in pre-payments<br>◆ $295 million Recourse debt (completed)<br>◆ $197 million Non-Recourse debt (Brasiliana)[1] (completed)<br>◆ AES Board approval to pre-pay $225 million Recourse debt |
| **2. Share buyback** | ■ 34 million shares repurchased by investing $390 million (average price of $11.55/share)<br>◆ Since August 2012, bought back 4.3 million shares by investing $49 million (average price of $11.38/share) |
| **3. Dividend** | ■ $0.04/share to be paid on November 15, 2012 |

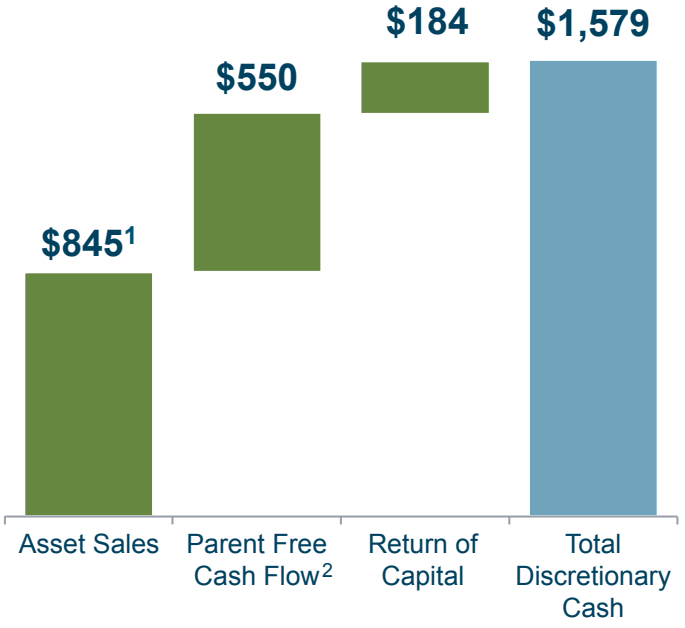
**Since September 2011, $1.1 Billion Invested in Our Balance Sheet**

1. AES owns 46% of its Brasiliana subsidiary. Reflects AES' ownership percentage.

# Update on Plan to Unlock Shareholder Value: Balanced Approach to Capital Allocation in 2012

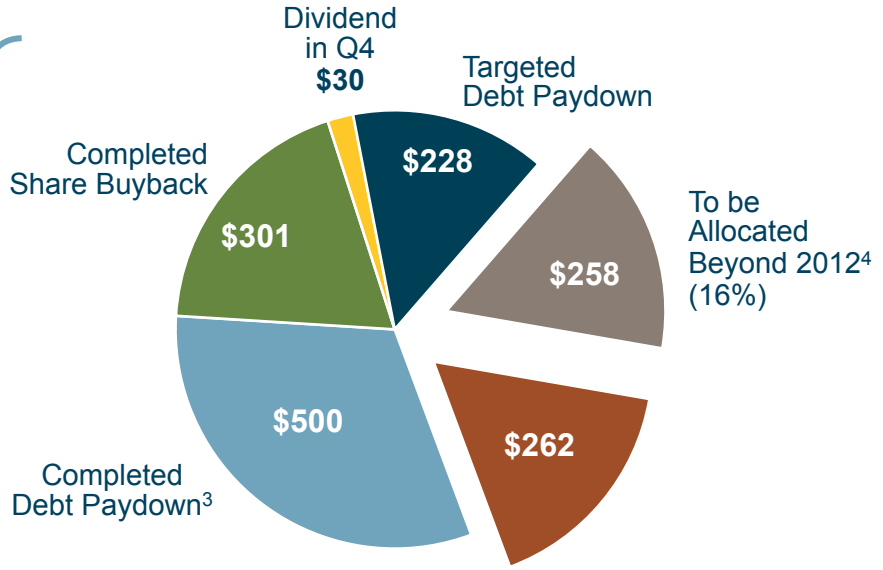
## $ in Millions

### Discretionary Cash – Sources ($1,579)




### Discretionary Cash – Uses ($1,579)

**Return to Shareholders & Debt Paydown: 67%**

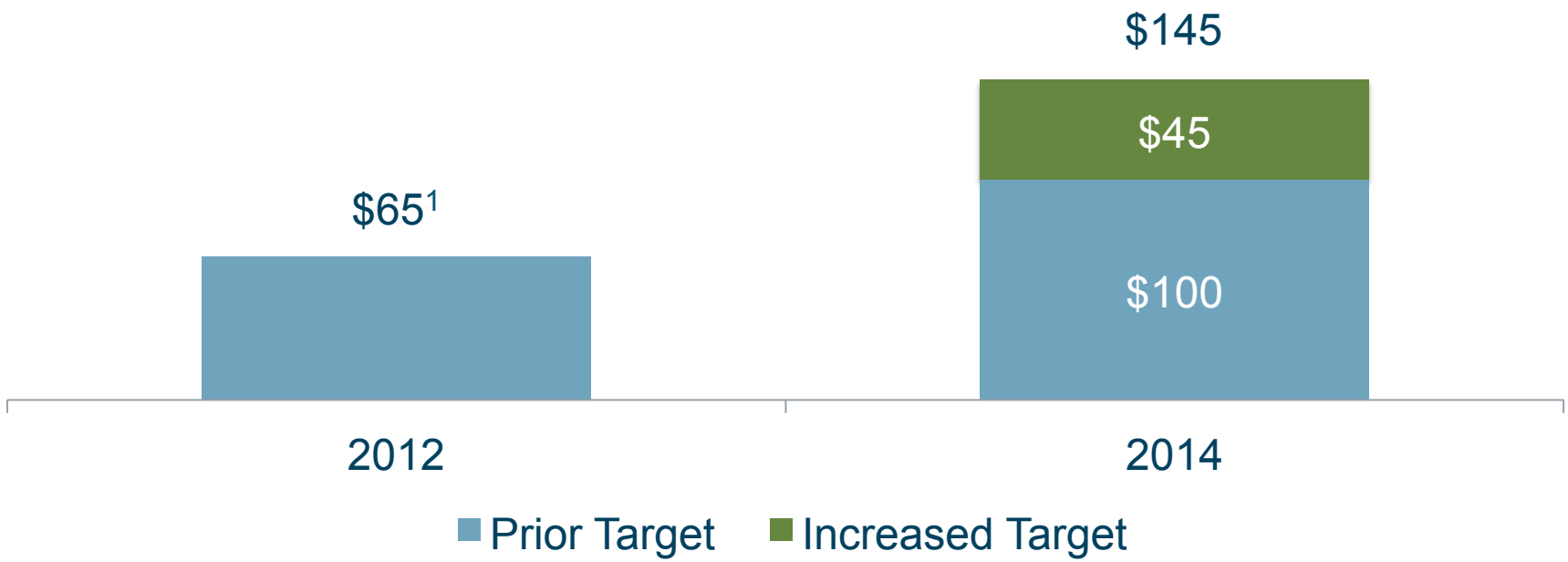



**Unallocated Cash to Be Invested According to Capital Allocation Framework to Achieve Total Return Targets**

1. Excludes $87 million dividend related to Atimus (Brazil Telecom), which is included in Parent Free Cash Flow.
2. Low end of 2012 parent free cash flow guidance range given on November 7, 2012. A non-GAAP financial measure. See Appendix for definition and reconciliation.
3. Completed $500 million debt paydown: $295 million corporate revolver, $8 million scheduled debt payment, and $197 million non-recourse debt.
4. To be allocated beyond 2012: $258 million will be used for investment in growth, stock buyback and/or debt repayment.

# Update on Plan to Unlock Shareholder Value: Improve Profitability

## $ in Millions




**Projected 2012 Savings of $65 Million[1]; Cumulative Target of $145 Million in Annual Savings by End of 2014**

1. Net of one-time restructuring expenses.

# Delivering Results: Expect to Achieve Significant Growth in Adjusted EPS[1] & Proportional Free Cash Flow[1] in 2012

## Adjusted EPS[1,2]




## Proportional Free Cash Flow[1] ($ in Millions)




**2012 Growth Largely Driven by Contributions from New Businesses Added in 2011**

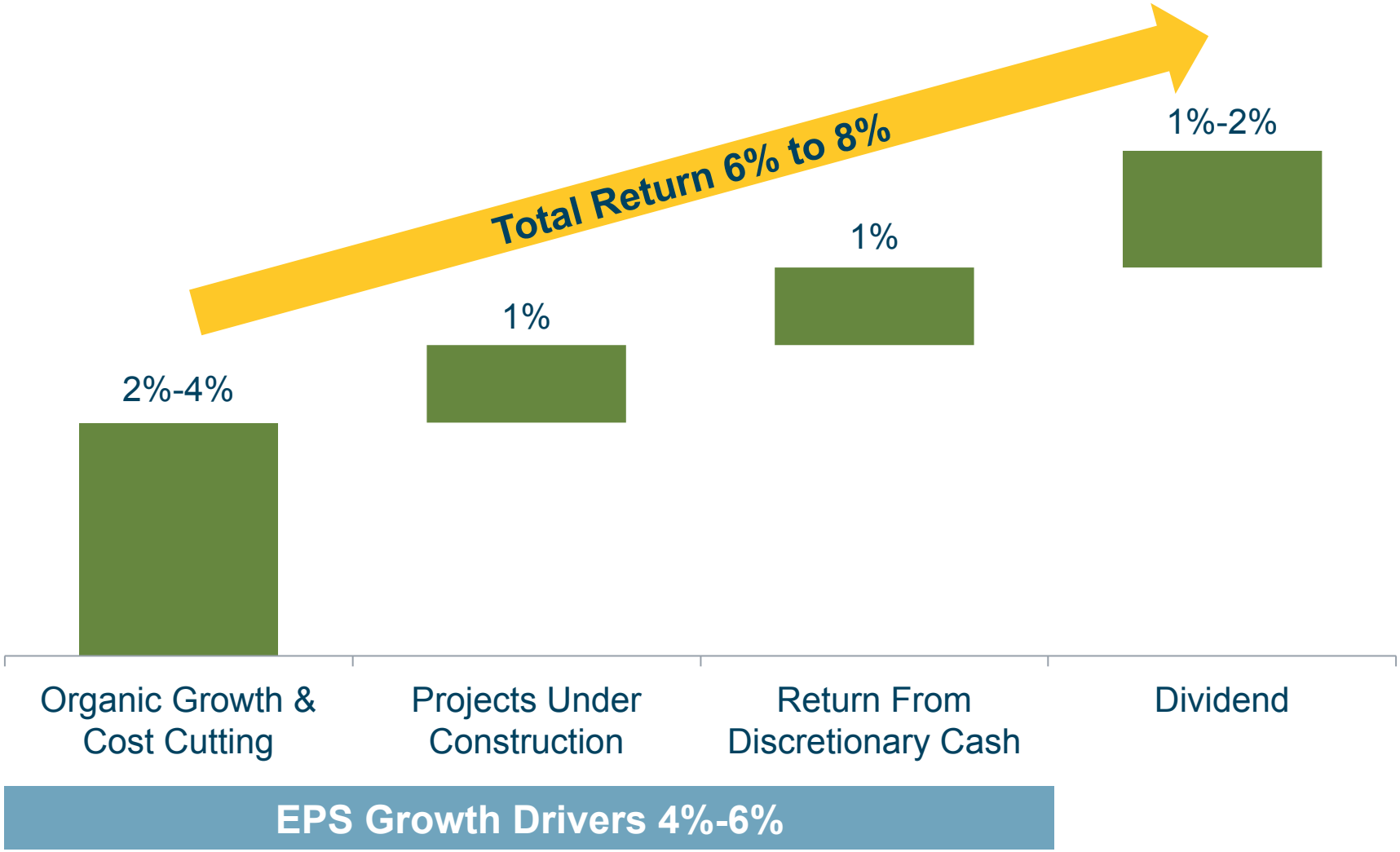
1. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. Diluted earnings per share from continuing operations was $0.59 in 2011.
3. Based on the lower end and midpoint of the guidance range.

# Drivers of Modest Growth in 2013

+ Improved performance at AES Gener
+ Recovery at Eletropaulo in Brazil
+ Capital allocation (including share repurchases done in 2012)
+ Cost reductions (full year of 2012 reductions; partial year of incremental reductions in 2013)
– DPL (lower gas prices and cumulative impact of customer switching)
– Foreign exchange impacts

**Plan to Provide 2013 Guidance on Q4 2012 Earnings Call (February 2013)**

# Forecasting Average Annual Total Return of 6% to 8% (2012-2015)[1]




1. Off 2012 base.

# Key Investment Considerations

- Diversified power generation and distribution company
  - Faster demand growth in emerging markets combined with cash flow stability from developed markets
  - Commodity and currency risks mostly mitigated by contracts and regulatory structures
- Optimizing capital allocation and de-risking balance sheet
  - Repurchased $390 million of common stock since September 2011
  - Paid down or authorized pre-payment of a total of $717 million in debt
  - Limiting our growth commitments primarily to attractive platform expansion projects
- Improving profitability through targeted cost reductions and debt repayment
- Exiting non-strategic assets and markets to simplify the story
  - Reinvesting cash consistent with our capital allocation framework
- Delivering on our commitments for 2012
- Committed to delivering 6%-8% average annual total return in 2012-2015

# Appendix


- Update on DPL — Slide 14
- DPL Gas Price Sensitivity — Slide 15
- Regulatory Developments in Brazil — Slide 16
- Chile — Slide 17
- Asset Sales — Slide 18
- Key Assumptions for 2012 Guidance — Slide 19
- 2012 Guidance Estimated Sensitivities — Slide 20
- Reconciliations — Slides 21-23
- Construction & Development — Slides 24-26
- Assumptions & Definitions — Slides 27-29

# Update on DPL

- Performance has been adversely affected compared to our expectations at the time of acquisition – resulted in a goodwill impairment in the range of $1.7 to $2.0 billion
  - Lower margins due to:
    - Lower gas prices
    - Accelerated competition resulted in increased switching (as of September 2012, 63% of regulated load had switched)
- Our action plan
  - Achieve a reasonable outcome in the rate case negotiations
    - Filed an ESP October 5th
    - Expect final resolution by first quarter 2013
  - Expand retail customer base – retained 73% of the switched load
  - Balance sheet optimization – de-lever the business with cash generated at DPL

# DPL Gas Price Sensitivity as of September 30, 2012

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Expected Production (TWh)** | 15 | 14 | 13 |
| **Hedged %** | 75%-80% | ~25% | <10% |
| **NYMEX Natural Gas Futures Price @ 9/30/12 ($/MMbtu)** | $3.84 | $4.18 | $4.37 |
| **PTC Impact +$1/MMbtu Change in Gas Price** | +$15-$20 Million | +$60-$70 Million | +$75-$85 Million |
| **PTC Impact -$1/MMbtu Change in Gas Price** | -$3-$6 Million | -$45-$55 Million | -$65-$75 Million |

Note: Sensitivities are provided on a standalone basis, assuming no change in the other factors, to illustrate the magnitude and direction of changing market factors on AES results. Estimates show the impact on 2012 adjusted PTC. Actual results may differ from the sensitivities provided due to execution of risk management strategies, local market dynamics and operational factors. 2012 guidance is based on currency and commodity forward curves and forecasts as of September 30, 2012. There are inherent uncertainties in the forecasting process and actual results may differ from projections. The Company undertakes no obligation to update the guidance presented today. Please see Item 3A of the Form 10-Q for a more complete discussion of this topic. AES has exposure to multiple coal, oil, and natural gas indices; forward curves are provided for representative liquid markets.

# Regulatory Developments in Brazil

- On September 11th, in order to stimulate the economy and contain inflation, the Brazilian Government announced its plan (Provisional Measure 579) to lower average electricity tariffs by ~20% through:
  - Reduction in indirect taxes on the sector
  - Reduction through negotiations with transmission, generation and distribution businesses with concession agreements expiring in 2015-2017
- Impact on our Brazilian businesses should be minimal in the near-term
  - Our generation business, Tiete, has a concession expiring in 2029, outside of this regulation's scope
    - Tiete has a contract to supply power to Eletropaulo through December 2015
  - Our distribution businesses, Sul and Eletropaulo, are not affected due to pass-through provisions and hold concessions expiring in 2027 and 2028, respectively

# Chile

- All plants are fully operational, including those that were offline in the second quarter for maintenance
- Reduced exposure to volatile spot market prices
  - 545 MW Angamos plant is now 90% hedged under a long-term contract, versus 65% in the first quarter
- Favorable trends in energy demand growth (4%-6% growth over the last three months)

# Update on Plan to Unlock Shareholder Value: Narrow Geographic Focus

| Business | AES Share of Proceeds ($ Millions) | | Remarks |
|---|---|---|---|
| Atimus (Brazil Telecom) | $284[2] | $884 closed | Non-core asset; Paid down $197 million[2] in debt at Brasiliana subsidiary |
| Bohemia (Czech Republic) | $12 | | Completed exit from non-core Market |
| Edes and Edelap (Argentina) | $4 | | Underperforming business |
| Cartagena[1] (Spain) | $229 | | No expansion potential |
| Red Oak (U.S.) | $142 | | No expansion potential |
| Ironwood (U.S.) | $85 | | |
| French Wind (France) | $42 | | Non-core market |
| Yangcheng & China Wind (China) | $86 | | Non-core market |
| JHRH (China) | $49 signed | | Non-core market; expected to close late 2012 |
| **Total** | **$933** | | |

**Businesses Sold at a P/E Multiple of More Than 20x 2011 Adjusted Earnings[3]**

1. Sold 80% of our interest to GDF Suez in February 2012. GDF Suez has the option to buy the remaining 20% interest in 2013.
2. AES owns 46% of its Brasiliana subsidiary. Proceeds and debt reflect AES' ownership percentage.
3. Excludes China asset sales, as these businesses reported $9 million in losses in 2011.

# Key Assumptions for 2012 Guidance[1]

- Foreign currency and commodity assumptions from the forward curve as of September 30, 2012
- Tax rate on adjusted earnings in low 30% range, which includes anticipated extension of CFC look-thru benefits
- Includes the impacts of announced and closed asset sales through September 30, 2012
- Allocation of discretionary cash consistent with Slide 7

1.Guidance given November 7, 2012.

# 2012 Guidance Estimated Sensitivities

## Interest Rates[1]

- 100 bps move in interest rates over a 12-month period is equal to change in EPS of approximately $0.025

## Currencies

- 10% appreciation in USD against the following key currencies is equal to the following negative EPS impacts:

| | 2012 | |
|---|---|---|
| | Average Rate | Sensitivity |
| Brazilian Real (BRL) | 2.03 | $0.005 |
| Argentine Peso (ARS) | 4.82 | Immaterial |
| Euro (EUR) | 1.29 | Immaterial |
| Philippine Peso (PHP) | 41.8 | Immaterial |

## Commodity Sensitivity

| | 2012 | |
|---|---|---|
| | Average Rate | Sensitivity |
| Newcastle Coal (Sensitivity $10/ton) | $89/ton | Less Than $0.005, negative correlation |
| NYMEX Coal (Sensitivity $10/ton) | $54/ton | |
| IPE Brent Crude Oil (Sensitivity $10/barrel) | $114/bbl | $0.005, positive correlation |
| NYMEX WTI Crude Oil (Sensitivity $10/barrel) | $92/bbl | |
| Henry Hub Natural Gas (Sensitivity $1/mmbtu) | $3.3/mmbtu | $0.005, positive correlation |
| UK National Balancing Point Gas (Sensitivity $1/mmbtu) | £0.62/therm | |

Note: Guidance given November 7, 2012. Sensitivities are provided on a standalone basis, assuming no change in the other factors, to illustrate the magnitude and direction of changing market factors on AES results. Estimates show the impact on 2012 adjusted EPS. Actual results may differ from the sensitivities provided due to execution of risk management strategies, local market dynamics and operational factors. 2012 guidance is based on currency and commodity forward curves and forecasts as of September 30, 2012. There are inherent uncertainties in the forecasting process and actual results may differ from projections. The Company undertakes no obligation to update the guidance presented today. Please see Item 3A of the Form 10-Q for a more complete discussion of this topic. AES has exposure to multiple coal, oil, and natural gas indices; forward curves are provided for representative liquid markets. Sensitivities are rounded to the nearest ½ cent per share.

1.The move is applied to the floating interest rate portfolio balances as of September 30, 2012.

# Reconciliation of Adjusted PTC[1] & Adjusted EPS[1]

## $ in Millions, Except Per Share Amounts

| | Year-to-Date 2012 | | |
|---|---|---|---|
| | Amount | | Per Share (Diluted) |
| **Income from Continuing Operations Attributable to AES & Diluted EPS** | **($1,155)** | | **($1.51)** |
| Add Back Income Tax from Continuing Operations Attributable to AES | $330 | | |
| Pre-Tax Contribution | ($825) | | |

| Adjustments[2] | Net of NCI | Net of NCI & Tax | Per Share (Diluted) |
|---|---|---|---|
| Unrealized Derivatives Losses | $84 | $55 | $0.07 |
| Unrealized Foreign Currency Transaction (Gains) | ($10) | ($4) | ($0.01) |
| Disposition/Acquisition (Gains) | ($206) | ($138) | ($0.18) |
| Impairment Losses | $1,968 | $1,937 | $2.54 |
| Debt Retirement Losses | - | - | - |
| **Adjusted PTC[1] & Adjusted EPS[1]** | **$1,011** | | **$0.91** |

1. A non-GAAP financial measure. See “definitions”.
2. See description of adjustments on Slide 22.

# Reconciliation of Adjusted Earnings Per Share[1]

| | Third Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Diluted EPS from Continuing Operations** | **($2.09)** | **($0.09)** | **($1.51)** | **$0.46** |
| Unrealized Derivative Losses[2] | - | $0.01 | $0.07 | - |
| Unrealized Foreign Currency Transaction (Gains)/ Losses[3] | ($0.01) | $0.08 | ($0.01) | $0.03 |
| Disposition/Acquisition (Gains) | ($0.04)[4] | - | ($0.18)[5] | - |
| Impairment Losses | $2.50[6] | $0.25[7] | $2.54[8] | $0.28[9] |
| Debt Retirement Losses | - | $0.03[10] | - | $0.04[11] |
| **Adjusted EPS[1]** | **$0.36** | **$0.28** | **$0.91** | **$0.81** |

1. A non-GAAP financial measure as reconciled above. See “definitions.”
2. Unrealized derivative losses were net of income tax per share of $0.01 and $0.01 in the three months ended September 30, 2012 and 2011 respectively, and $0.04 and $0.01 in the nine months ended September 30, 2012 and 2011, respectively.
3. Unrealized foreign currency transaction (gains)/losses were net of income tax per share of ($0.01) and $0.03 in the three months ended September 30, 2012 and 2011, respectively, and of ($0.01) and $0.00 in the nine months ended September 30, 2012 and 2011, respectively.
4. Amount primarily relates to the gain from the sale of our interest in China of $24 million ($28 million, or $0.04 per share including an income tax credit of $4 million, or $0.00 per share).
5. Amount primarily relates to the gain from the sale of 80% of our interest in Cartagena for $178 million ($106 million or $0.14 per share, net of income tax of $0.09 per share) and China of $24 million ($28 million, or $0.04 per share including an income tax credit of $4 million, or $0.00 per share).
6. Amount primarily relates to the goodwill impairment at DPL of $1.85 billion ($1.85 billion, or $2.46 per share, net of income tax of $0.00 per share), asset impairments of Wind turbines and projects of $36 million ($26 million, or $0.03 per share, net of income tax of $0.01 per share) and at Kelanitissa of $5 million ($3 million or $0.00 per share, net of non-controlling interest and of income tax of $0.00 per share).
7. Amount includes equity method investment impairment at Chigen, including Yangcheng, of $79 million ($78 million or $0.10 per share, net of income tax of $0.00 per share), asset impairments at Wind of $116 million ($86 million, or $0.11 per share, net of income tax of $0.04 per share), Kelanitissa of $4 million ($4 million or $0.01 per share, net of non-controlling interest), and Bohemia of $9 million ($11 million, and $0.01 per share including an income tax credit of $2 million or $0.00 per share), and goodwill impairment at Chigen of $17 million ($13 million or $0.02 per share, net of income tax of $0.01 per share).
8. Amount primarily relates to the goodwill impairment at DPL of $1.85 billion ($1.85 billion, or $2.42 per share, net of income tax of $0.00 per share). Amount also includes other-than-temporary impairment of equity method investments in China of $32 million ($26 million or $0.03 per share, net of income tax of $0.01 per share), and at InnoVent of $17 million ($12 million, or $0.02 per share, net of income tax of $0.01 per share), as well as asset impairments of Wind turbines and projects of $40 million ($28 million, or $0.04 per share, net of income tax of $0.02 per share), at Kelanitissa of $17 million ($11 million or $0.01 per share, net of non-controlling interest and income tax of $0.01 per share), and at St. Patrick of $11 million ($8 million, and $0.01 per share, net of income tax of $0.00 per share).
9. Amount includes equity method investment impairment at Chigen, including Yangcheng, of $79 million ($78 million or $0.10 per share, net of income tax of $0.00 per share), asset impairments at Wind of $116 million ($86 million, or $0.11 per share, net of income tax of $0.04 per share), Kelanitissa of $37 million ($34 million or $0.04 per share, net of non-controlling interest), and Bohemia of $9 million ($11 million, and $0.01 per share including an income tax credit of $2 million or $0.00 per share), and goodwill impairment at Chigen of $17 million ($13 million or $0.02 per share, net of income tax of $0.01 per share).
10. Amount includes loss on retirement of debt at Gener of $38 million ($20 million, or $0.03 per share, net of non-controlling interest and income tax per share of $0.01).
11. Amount includes loss on retirement of debt at IPL of $15 million ($11 million, or $0.01 per share, net of income tax per share of $0.01) and at Gener of $38 million ($20 million, or $0.03 per share, net of non-controlling interest and income tax per share of $0.01).

# Reconciliation of 2012 Guidance, Including Proportional Metrics

| *$ in Millions, Except Earnings Per Share* | 2012 Guidance (Given 11/7/12)[1] | | |
|---|---|---|---|
| | Consolidated | Adjustment Factors[2] | Proportional[2] |
| **Income Statement Elements** | | | |
| Adjusted Earnings Per Share[2] | $1.22-$1.30 | | |
| **Cash Flow Elements** | | | |
| Net Cash from Operating Activities | $2,900-$3,100 | $975 | $1,925-2,125 |
| Operational Capital Expenditures (a) | $1,050-$1,125 | $300 | $725-$850 |
| Environmental Capital Expenditures (b) | $100-$125 | $25 | $75-$100 |
| Maintenance Capital Expenditures (a + b) | $1,150-$1,250 | $325 | $800-$950 |
| Free Cash Flow[2] | $1,700-$1,900 | $650 | $1,050-$1,250 |
| Subsidiary Distributions[3] | $1,325-$1,525 | | |
| **Reconciliation of Parent Free Cash Flow** | | | |
| Subsidiary Distributions[3] (c) | $1,325-$1,525 | | |
| Cash Interest (d) | $450-$500 | | |
| Cash for Development, General & Administrative and Tax (e) | $325-$375 | | |
| Parent Free Cash Flow (c – d – e) | $550-$650 | | |
| **Reconciliation of Free Cash Flow[2]** | | | |
| Net Cash from Operating Activities | $2,900-$3,100 | $975 | $1,925-$2,125 |
| Less: Maintenance Capital Expenditures | $1,150-$1,250 | $325 | $800-$950 |
| Free Cash Flow[2] | $1,700-$1,900 | $650 | $1,050-$1,250 |
| **Reconciliation of Adjusted Gross Margin[2]** | | | |
| Gross Margin | $3,600-$3,800 | $950 | $2,650-$2,850 |
| Plus: Depreciation & Amortization | $1,400-$1,500 | $350 | $1,050-$1,150 |
| Less: General & Administrative | $300-$350 | - | $300-$350 |
| Adjusted Gross Margin[2] | $4,725-$4,925 | $1,300 | $3,425-$3,625 |
| **Reconciliation of Adjusted Pre-Tax Contribution[2]** | | | |
| Adjusted Pre-Tax Contribution[2] Before Corporate Charges | $1,900-$2,100 | | |
| Less: Corporate Charges | $650-$750 | | |
| Adjusted Pre-Tax Contribution[2] After Corporate Charges | $1,250-$1,350 | | |

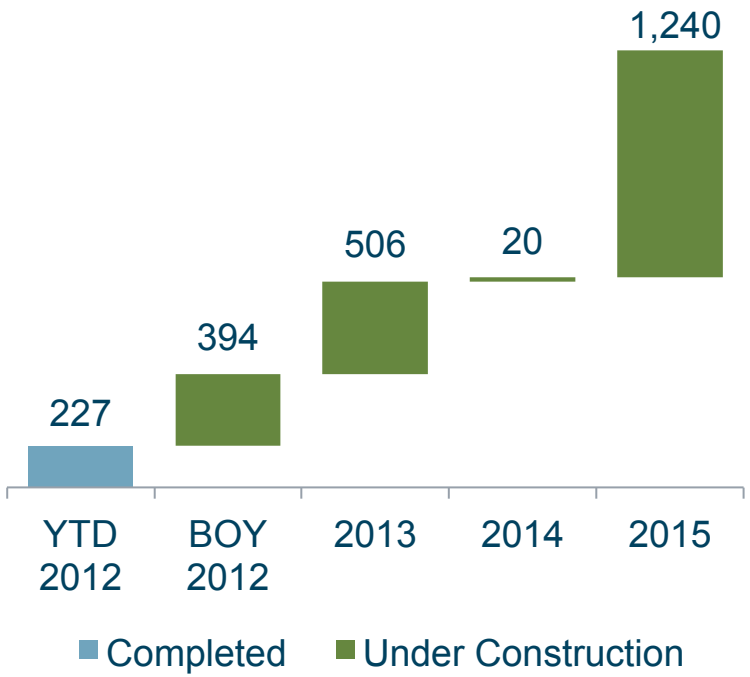
Note: In providing its full year 2012 Adjusted EPS guidance, the Company notes that there could be differences between expected reported earnings and estimated operating earnings for matters such as, but not limited to (a) unrealized gains or losses related to derivative transactions, (b) unrealized foreign currency gains or losses, (c) gains or losses due to dispositions and acquisitions of business interests, (d) losses due to impairments, and (e) costs due to the early retirement of debt. At this time, AES management is not able to estimate the aggregate impact, if any, of these items on reported earnings. Accordingly, the company is not able to provide a corresponding GAAP equivalent for its Adjusted EPS guidance.

1. 2012 guidance is based on expectations for future foreign exchange rates and commodity prices as of September 30, 2012.
2. A non-GAAP financial measure as reconciled above. See “definitions.”
3. See “definitions.”

# Construction Program Contributes Near-Term Growth

## Long-Term Debt is Committed and AES has Funded its Equity Contributions

### 2,387 Gross MW On-Line by Year[1]




- 2012 additions include:
  - 394 MW Trinidad Unit 2, of which AES owns 10%
  - 227 MW renewable projects
- 2013 additions include:
  - 270 MW Campiche (Chile)
  - 216 MW Kribi (Cameroon)
  - 20 MW Sixpenny Wood (UK)
- 2014 addition represents 20 MW Tunjita (Colombia)
- 2015 addition represents 1,240 MW Mong Duong II (Vietnam)

1. As of November 5, 2012; 1,189 proportional MW. See Slide 25 for details of projects under construction.
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 2011 Form 10-K.

# 2,160 MW Under Construction as of November 5, 2012

| | Generation (Thermal) | | | | Generation (Renewables) | |
|---|---|---|---|---|---|---|
| | Trinidad | Chile | Cameroon | Vietnam | UK | Colombia |
| Project | Trinidad Unit 2 | Campiche | Kribi | Mong Duong II | Sixpenny Wood | Tunjita |
| % Owned | 10% | 71% | 56% | 51% | 100% | 71% |
| Type | Gas | Coal | Gas | Coal | Wind | Hydro |
| Gross MW | 394 MW | 270 MW | 216 MW | 1,240 MW | 20 MW | 20 MW |
| Expected Commercial Operations Date | Q4 2012 | 1H 2013 | 2013 | 2H 2015 | 2013 | 2014 |

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.

# Platform Expansion Examples: Strong Near-Term Growth Pipeline in Chile (AES Gener) and the United States (IPL)

## 532 MW Coal-Fired Cochrane (Chile)

- Adjacent to Angamos facility; plant site owned by Angamos
- Includes 20 MW battery storage facility (BESS)
- Construction contract and long-term power sales agreements in place
- Construction expected to begin in 2013



## 531 MW Run-of-River Hydro Alto Maipo (Chile)

- 50 km East of Santiago
- Environmental, water and civil works permits obtained
- Executed principal construction contracts
- Construction expected to begin in 2013



## Upgrading 2,500 MW Coal-Fired Capacity at IPL (U.S.-Indiana)

- Installing pollution controls to comply with Mercury and Air Toxic Standards (MATS)
  - Investment will yield regulated returns
  - Will cover the required investment to upgrade 100% of IPL's base-load coal-fired capacity



Note: 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 2011 Form 10-K.

# 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

- **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) unrealized gains or losses 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 EPS 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 unrealized gains or losses related to derivative transactions, unrealized foreign 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 EPS should not be construed as an alternative to diluted earnings per share from continuing operations, which is determined in accordance with GAAP. For the three and nine months ended September 30, 2012, the Company refined its process for computing the tax effects of adjusted EPS items for interim periods. Accordingly, the Company has also reflected the refined process in the comparative three and nine months ended September 30, 2011.
- **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.
- **Adjusted Pre-Tax Contribution** (a non-GAAP financial measure) represents pre-tax income from continuing operations attributable to AES excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses 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. It includes net equity in earnings of affiliates, on an after-tax basis. The GAAP measure most comparable to Adjusted PTC is income from continuing operations attributable to AES. AES believes that Adjusted PTC 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 unrealized gains or losses related to derivative transactions, unrealized foreign 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. Earnings before tax represents the business performance of the Company before the application of statutory income tax rates and tax adjustments, including the effects of tax planning, corresponding to the various jurisdictions in which the Company operates. Adjusted PTC should not be construed as an alternative to income from continuing operations attributable to AES, which is determined in accordance with GAAP.
- **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.
- **Net Debt** (a non-GAAP financial measure) is defined as current and non-current recourse and non-recourse debt less cash and cash equivalents, restricted cash, short term investments, debt service reserves and other deposits. AES believes that net debt is a useful measure for evaluating our financial condition because it is a standard industry measure that provides an alternate view of a company's indebtedness by considering the capacity of cash. It is also a required component of valuation techniques used by management and the investment community.
- **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.
- **Parent Free Cash Flow** (a non-GAAP financial measure) 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.

# Definitions, Cont'd.

- **Proportional Metrics –** 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.
- **Subsidiary Liquidity** (a non-GAAP financial measure) is defined as cash and cash equivalents and bank lines of credit at various subsidiaries.
- **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.