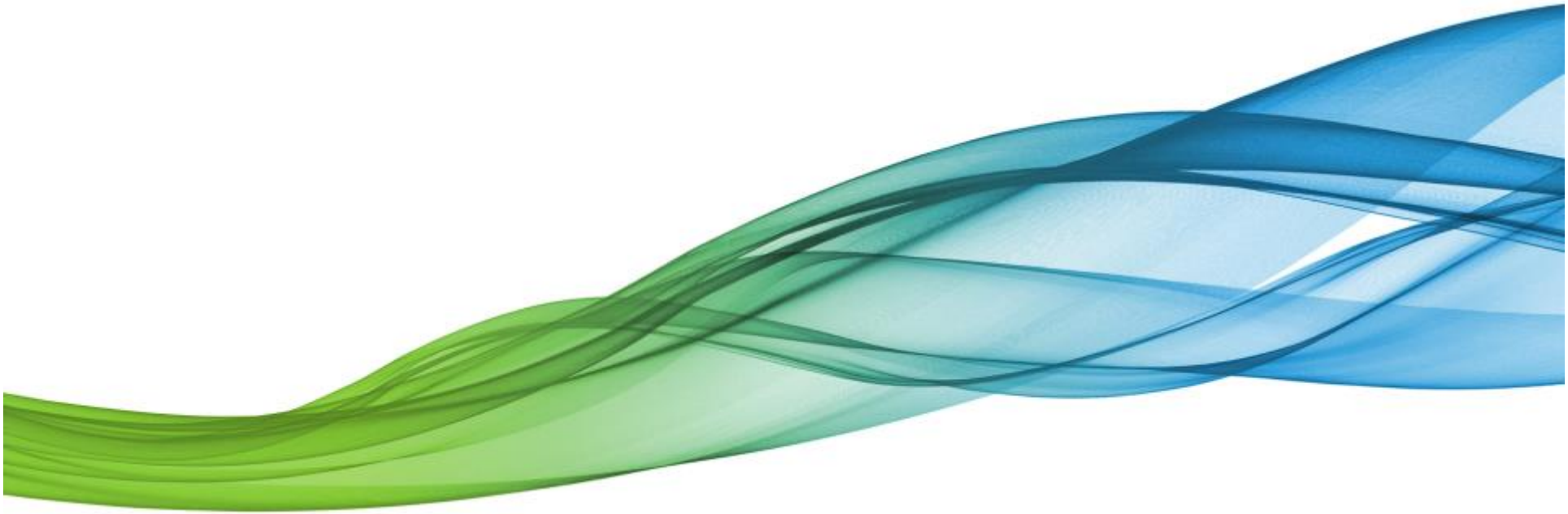
The AES Corporation

Tom O'Flynn, Executive Vice President & Chief Financial Officer

Wolfe Power & Gas Leaders Conference
September 30, 2015



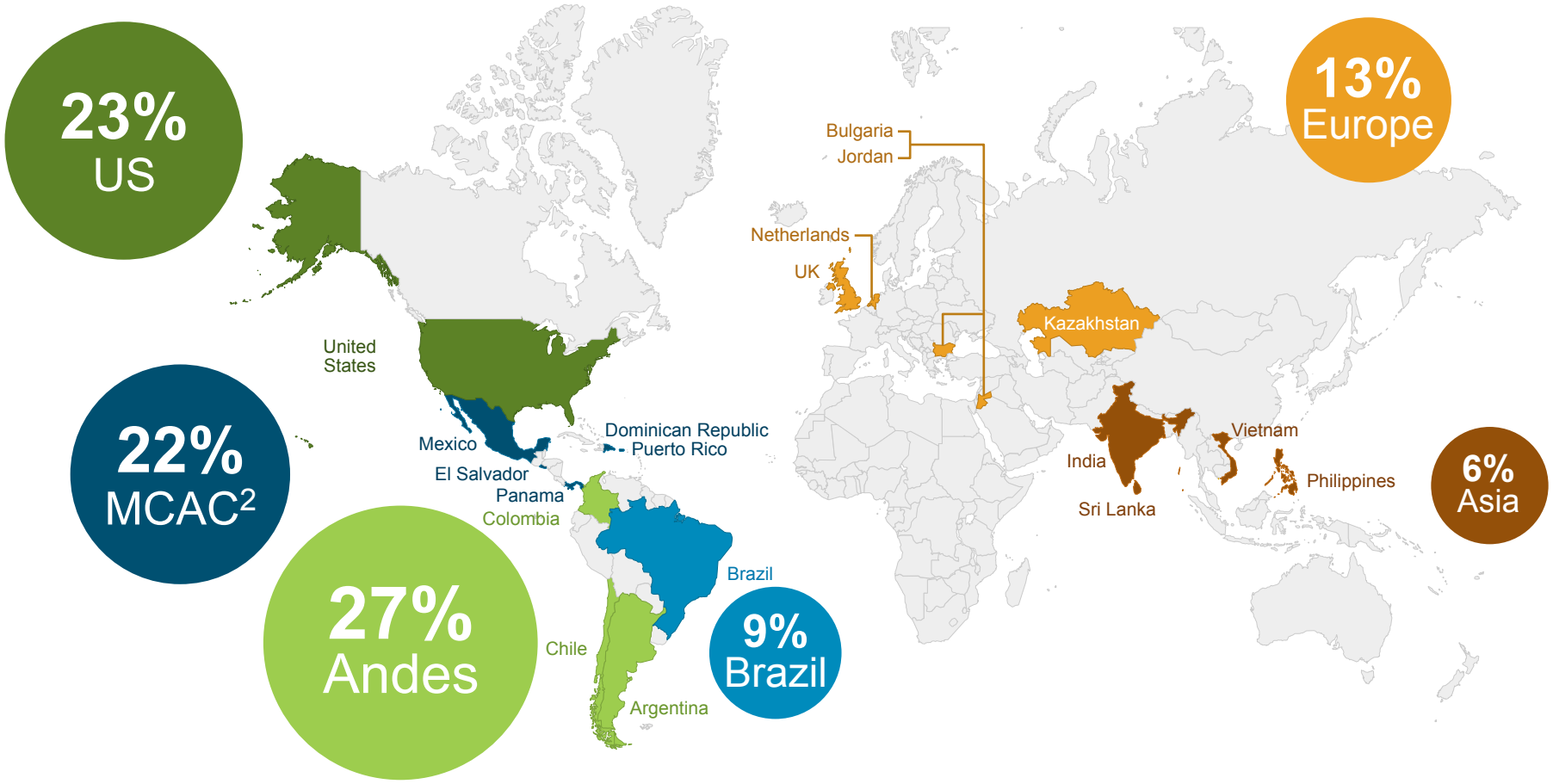
Safe Harbor Disclosure

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 35 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' 2014 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

Businesses Managed in Six Strategic Business Units (SBUs)

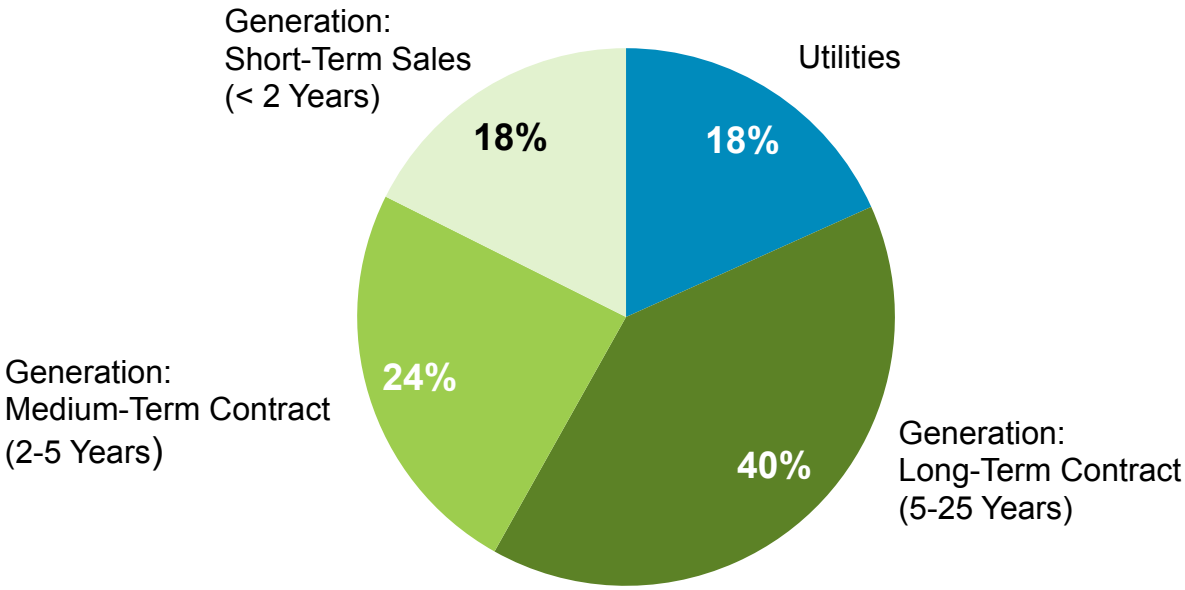
(%) = 2015 Expected Adjusted Pre-Tax Contribution (PTC)[1]



1. A non-GAAP financial measure. See Appendix for definition and reconciliation. 2015 Adjusted PTC of $1.9 billion before Corporate charges of $0.5 billion.
2. Mexico, Central America and the Caribbean.

82% of Businesses are Contracted Generation or Utilities

2015 Expected Adjusted PTC[1] by Type of Business and Contract Length

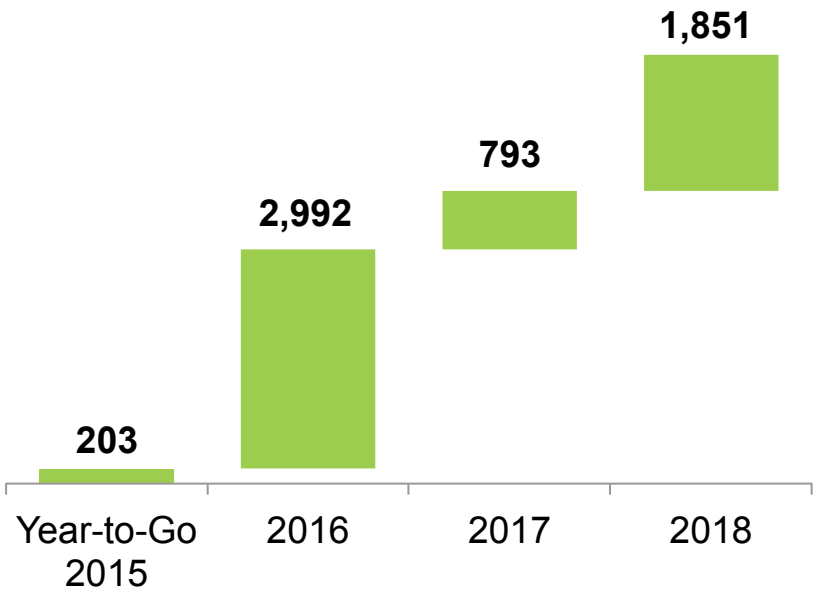


Average Remaining Contract Term is 7 Years[2]

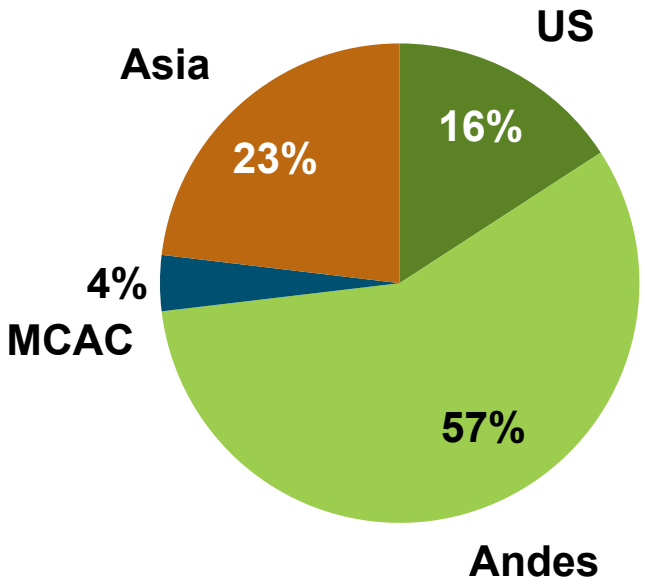
1. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. Average of medium- and long-term contracts. PPA MW-weighted average is adjusted for AES' ownership stake.

Growth Through 2018 is Largely Driven by On-Going Construction Program

Construction Program Drives 10%-15% Average Annual Free Cash Flow Growth



$7 Billion Total Cost

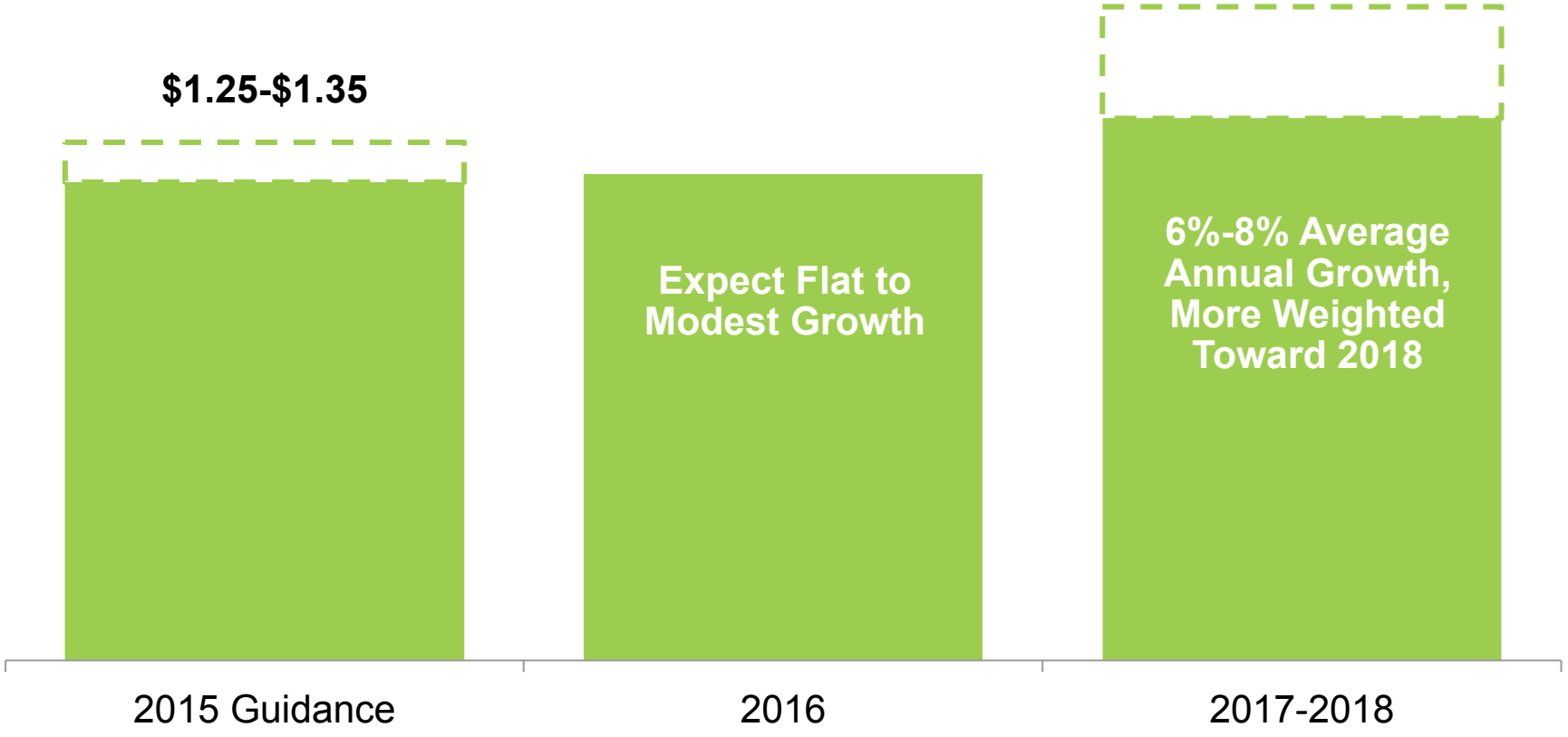


Total AES Equity of $1.3 Billion; Remaining $400 Million is Still to be Funded with Free Cash Flow

Value Proposition

Expected Growth in Adjusted EPS[1,2]

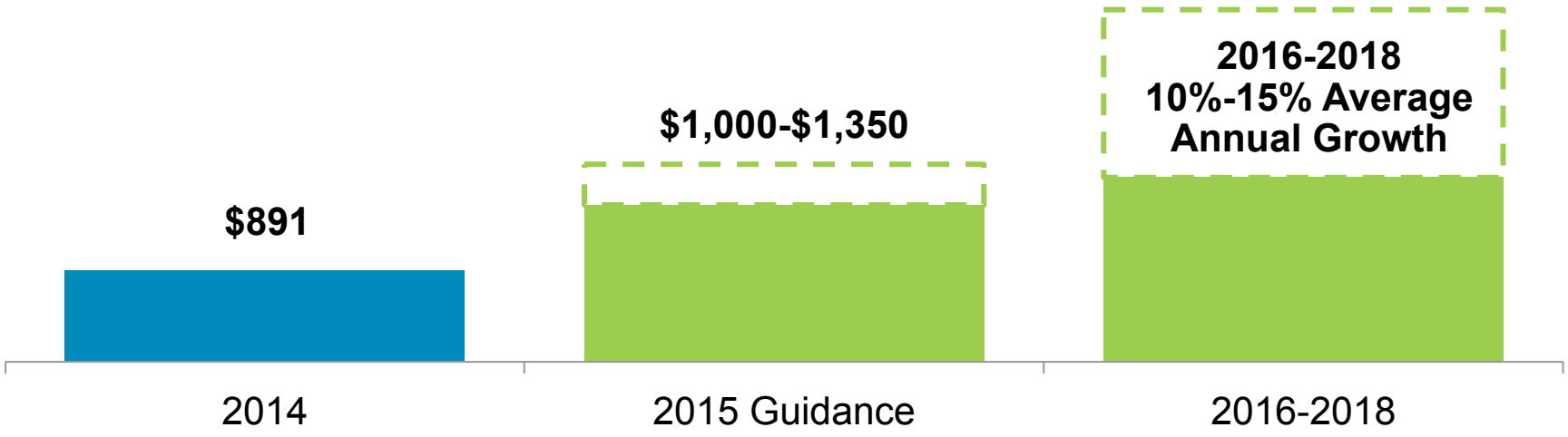
Macro Headwinds, Seeking to Offset



1. As of May 11, 2015. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. 2015 guidance based on currency and commodity curves as of June 30, 2015; 2016-2018 outlook based on currency and commodity curves as of December 31, 2014.

Expected Growth in Proportional Free Cash Flow[1,2]

$ in Millions, Macro Headwinds, Seeking to Offset



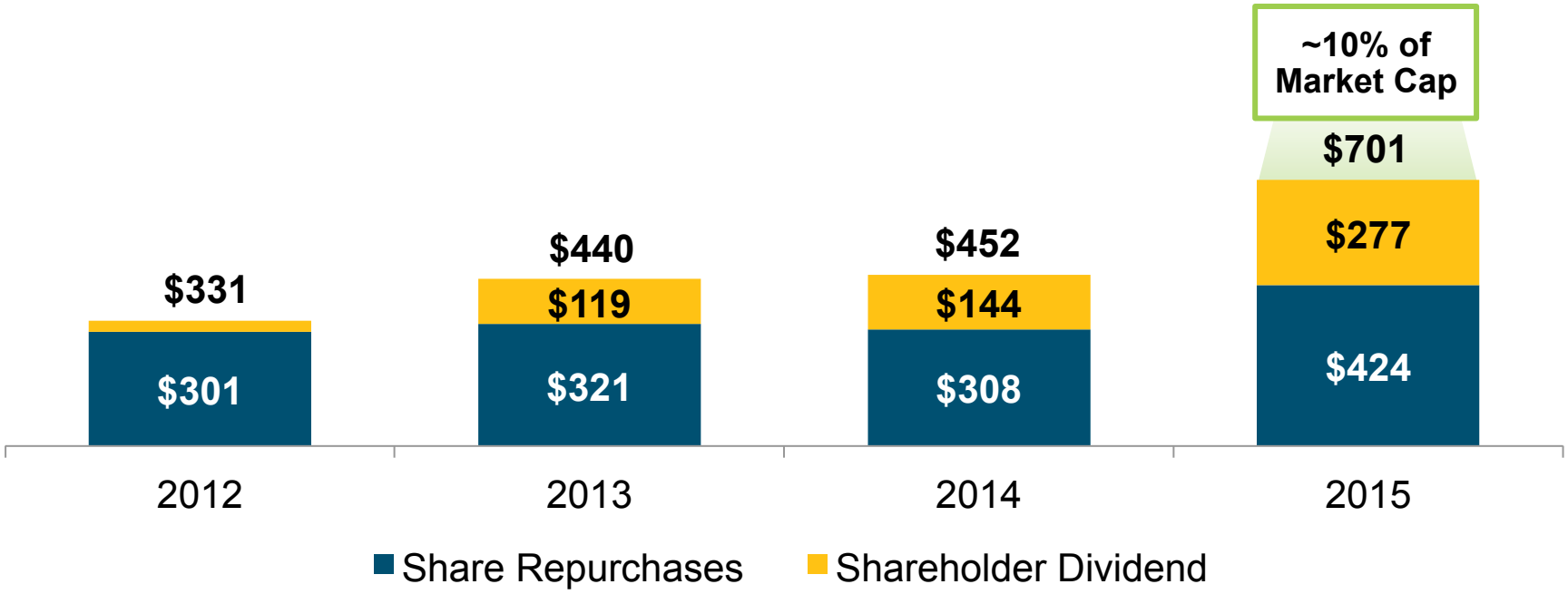
Proportional Free Cash Flow[1] Available for Subsidiary Debt Paydown ($500-$600 Million/Year) and Other Discretionary Uses

1. As of May 11, 2015. A non-GAAP financial measure. See Appendix for definition and reconciliation.
2. 2015 guidance based on currency and commodity curves as of June 30, 2015; 2016-2018 outlook based on currency and commodity curves as of December 31, 2014.

Maximizing Risk-Adjusted Per Share Returns to Shareholders

$ in Millions

Returning $2 Billion to Shareholders 2012-2015

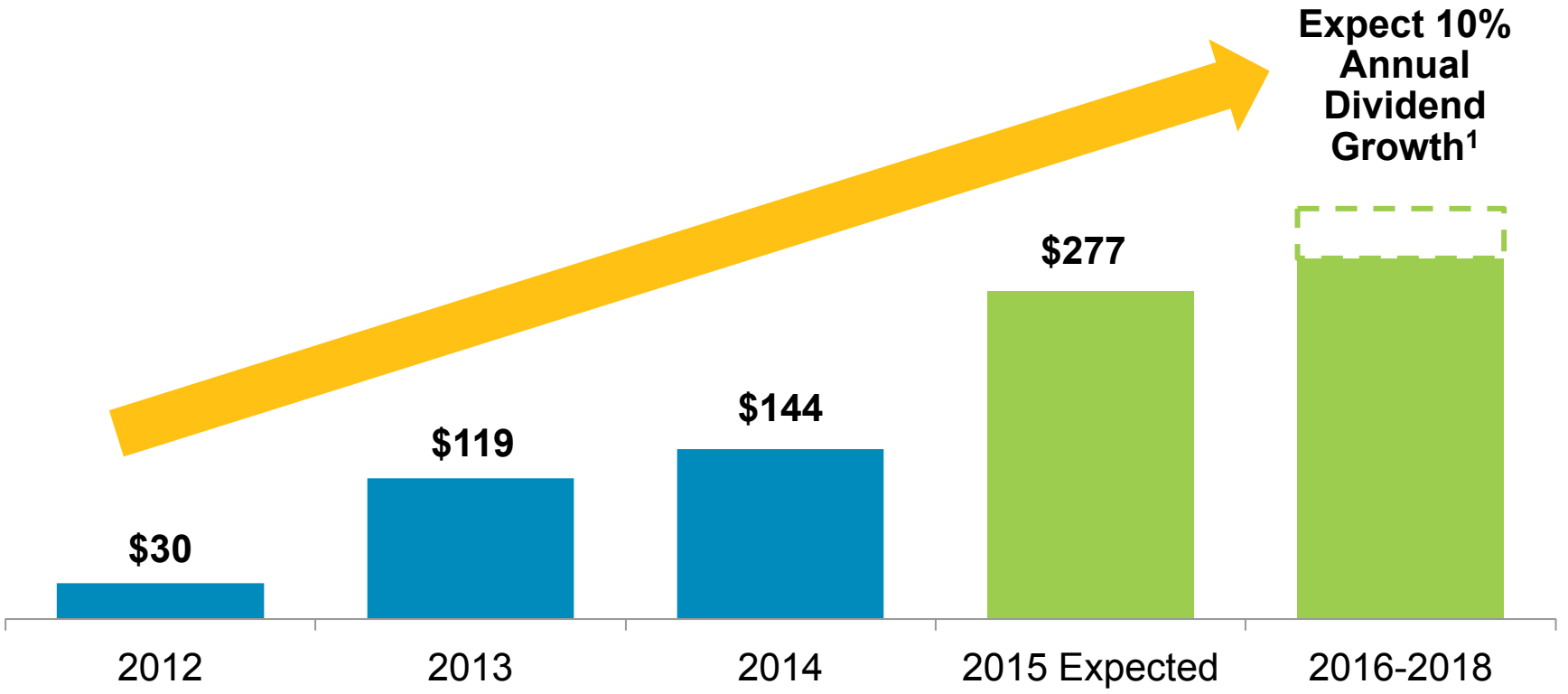


In Addition, Reduced Parent Debt by $1.5 Billion (23%) Over the Same Period

Strong and Growing Free Cash Flow Supports Attractive Dividend Growth

$ in Millions

Annual Shareholder Dividend

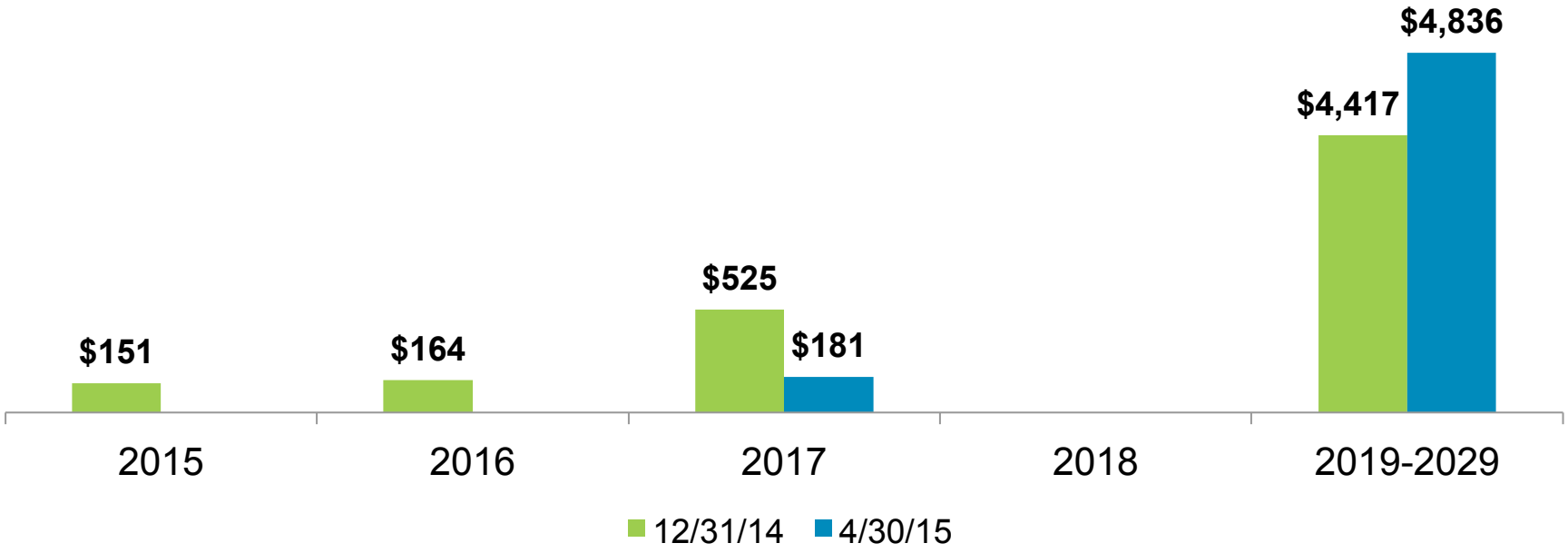


1. The Company expects the dividend to grow approximately 10% annually, consistent with Parent Free Cash Flow growth of 10% to 15% per year on average through 2018.

Reduced 2015-2018 Parent Debt Maturities from $840 Million to $181 Million

$ in Millions

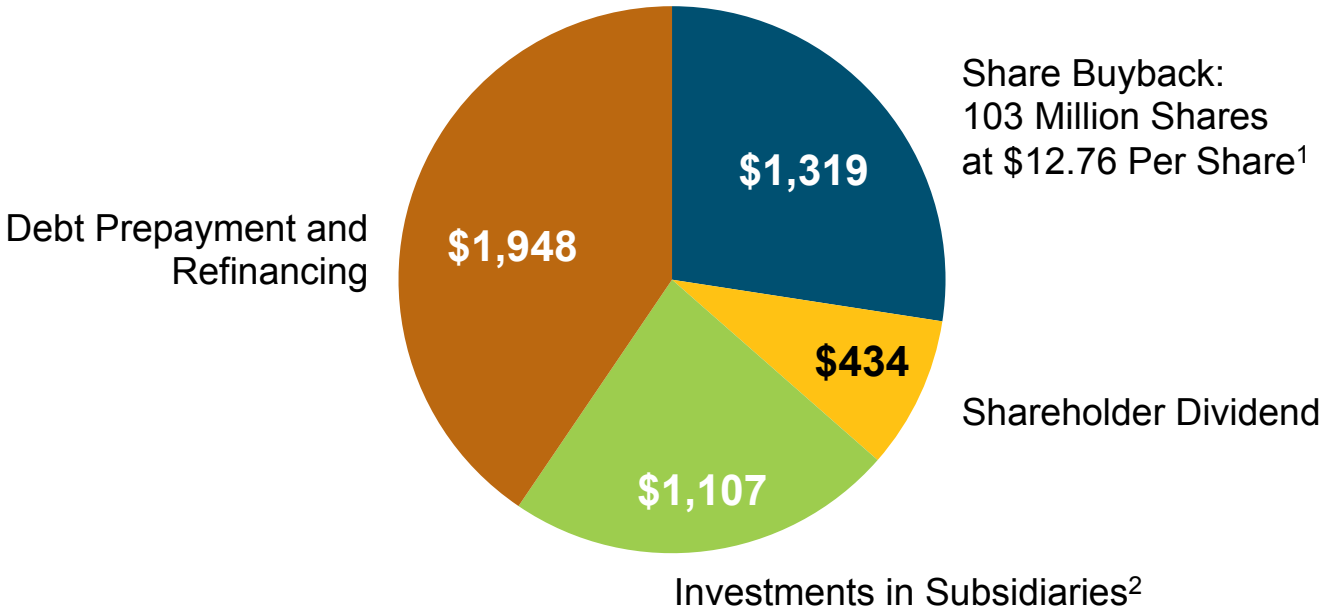
Prepaid $315 Million and Refinanced Majority of Near-Term Maturities with Long-Term Debt



Since 2011, Reduced Parent Debt by $1.5 Billion, or 23%

Invested $4.8 Billion of Discretionary Cash in Shareholder Returns, Debt Paydown and Select Growth Projects

September 2011-June 2015; $ in Millions



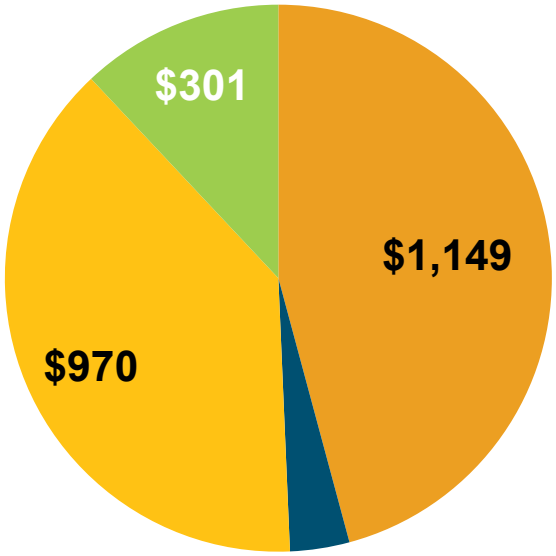
77% of Discretionary Cash Allocated to Deleveraging and Returning Cash to Shareholders

1. Includes share repurchases through August 7, 2015.
2. Excludes $2.3 billion investment in DPL.

$2.5 Billion Available for Value Creation; Additional Asset Sales Will Increase Discretionary Cash

July 2015-December 2018; $ in Millions

Committed Investments in Projects Under Construction



Shareholder Dividend[2]

Discretionary Cash to be Allocated[3]

- Share repurchases
- Incremental growth
- Debt reduction
- Dividend growth

$88 Intended 2015 Share Buyback[1]

Growth Investments to Compete Against Share Repurchases

1. Intended share repurchases from August 8, 2015 through December 31, 2015.
2. Assumes constant 2015 dividend payment of $277 million each year through 2018, based on current dividend of $0.10 per share per quarter.
3. Assumes sources of $40 million beginning cash, $295 million asset sale proceeds ($135 million from sale of a minority interest in IPALCO in the U.S., $58 million from Armenia Mountain in the U.S., $30 million from IPP4 in Jordan, $32 million from Spain solar and $40 million from sale of Sonel, Kribi and Dibamba in Cameroon), and Parent Free Cash Flow of $2.2 billion, which is based on a range of $475-$575 million in 2015, growing at the low-end of our 10%-15% cash flow growth rate through 2018 (less YTD 2015).

Value Proposition

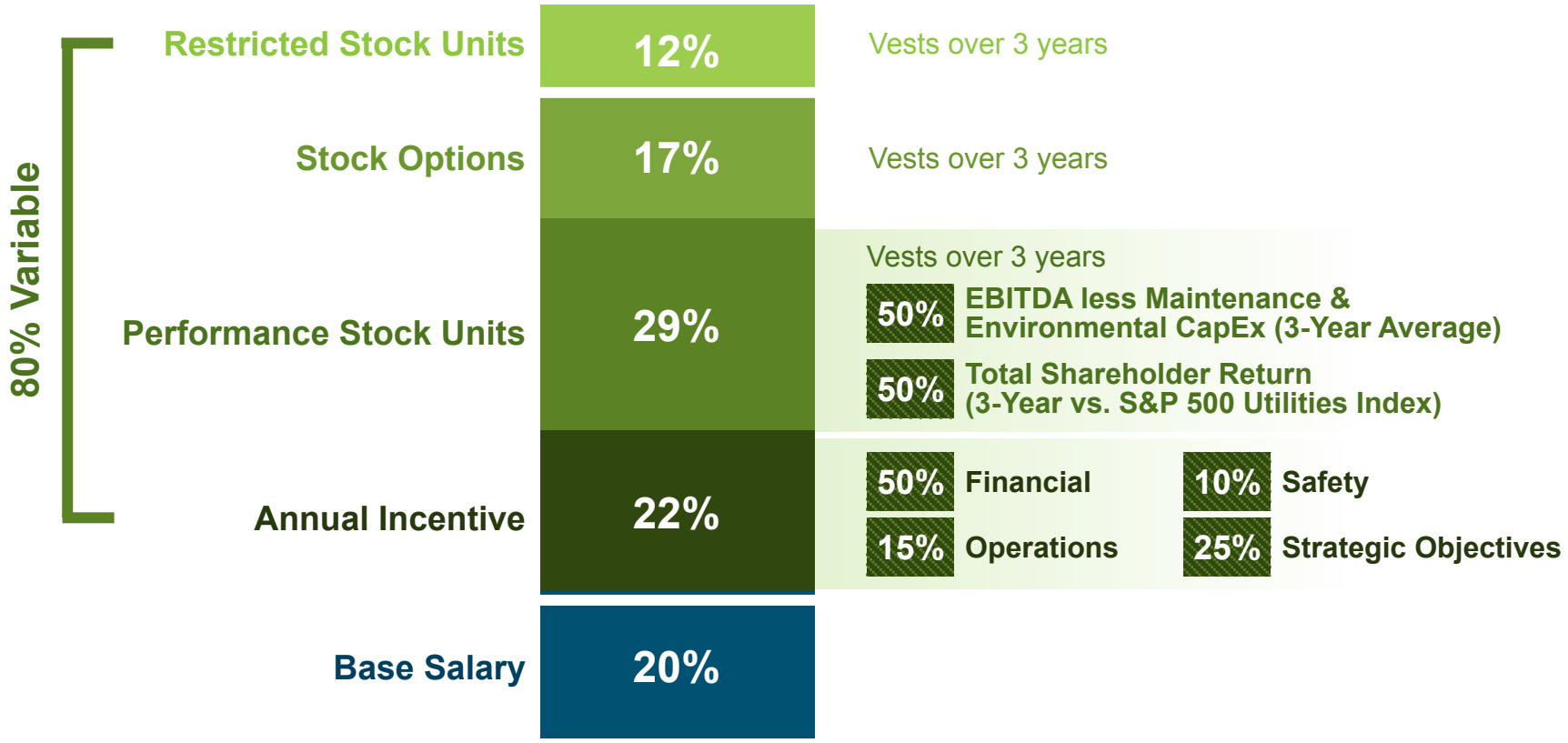
- Management team with proven track record
- Strong position in fast growing markets
- 10% to 15% expected annual growth in Proportional Free Cash Flow[1]
- Quarterly dividend of $0.10 per quarter with expected 10% annual growth

Appendix

- Executive Compensation — Slide 17
- Hydrology — Slide 18
- Business Updates (Brazil, Bulgaria) — Slides 19-20
- 2015 Guidance Assumptions — Slide 21
- 2015 Parent Capital Allocation Plan — Slide 22
- 2015 Adjusted PTC[1] Modeling Ranges — Slide 23
- 2015 Guidance Estimated Sensitivities — Slide 24
- Currencies & Commodities — Slides 25-26
- Building the Energy Company of the Future — Slides 27-30
- Construction — Slide 31
- Parent Debt — Slide 32
- Reconciliations — Slides 33-34
- Assumptions & Definitions — Slides 35-37

1. A non-GAAP financial measure.

Executive Compensation Aligned with Shareholders' Interests



80% of Target Compensation is Tied to Stock Price and/or Business Performance

1. 2015 target compensation for CEO and other Executive Officers.

Hydro Conditions Improving and In Line with Prior Expectations

	Colombia, Chile & Argentina	Panama	Brazil	TOTAL
	• Chivor in Colombia is experiencing stronger inflows (close to long-term average) versus the rest of the country (~90% of long-term average) • Expect normal hydro conditions in 2015	• Inflows have improved to close to long-term average • Spot prices down more than half to $100/MWh • Expect normal hydro conditions in 2015	• Expect to cover 17%-19% of contract commitment from the spot market in 2015 • July rainfall 156% of long-term average; reservoir levels projected to be 37% by end of August vs. 20% at beginning of 2015 – reflects in spot price of 120 Reals/MWh, significantly lower than last year	
FY 2013 Adjusted EPS[1] Impact	($0.02)	($0.10)	($0.01)	($0.13)
FY 2014 Adjusted EPS[1] Impact	$0.03	($0.06)	($0.07)	($0.10)
FY 2015 Adjusted EPS[1] Impact	-	-	($0.07)	($0.07)

1. A non-GAAP financial measure. See Appendix for definition. Impact on Adjusted EPS is relative to normal hydrology.

Brazil Updates

Eletropaulo Tariff Adjustment

- Secured approval for four-year tariff adjustment
- Final outcome in line with expectations
- Sets a strong foundation for predictable operations through 2019

Brasiliana Restructuring

- Own various businesses with BNDES, the state-owned development bank
- Restructuring allows separation of generation business, Tietê
  - More control of operations and capital allocation decisions
- Expect approval from key stakeholders and regulator before year-end
- Once closed, more favorable position to leverage ~$500 million of debt capacity at Tietê

Update on Maritza in Bulgaria

690 MW Coal-Fired Maritza Plant



- In April, signed a non-binding MoU with NEK, the offtaker to:
  - Reduce the capacity payment to Maritza through 2026 when the PPA expires ($0.03 annual Adjusted EPS[1] impact)
  - NEK will pay its full outstanding receivables ($281 million as of June 30, 2015)
- Secured required approvals from project lenders and Bulgarian regulator
- Government of Bulgaria taking concrete steps to improve NEK's financial position on a sustainable basis
- Closing expected during second half of 2015

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

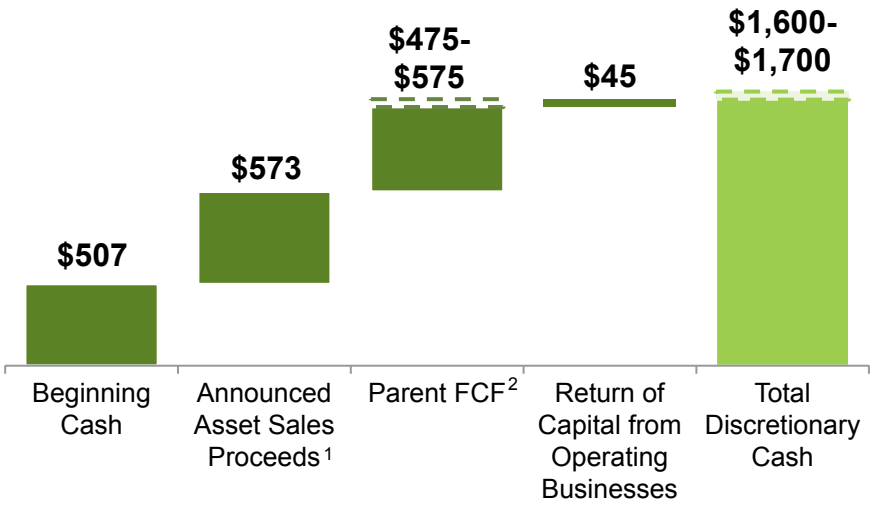
Key Assumptions for 2015 Guidance

- Currency and commodity forward curves as of June 30, 2015
- Current outlook for hydrology in Latin America – in line with our expectations
- Full year 2015 tax rate of 31%-33% versus year-to-date tax rate of 31% and full year 2014 tax rate of 30%

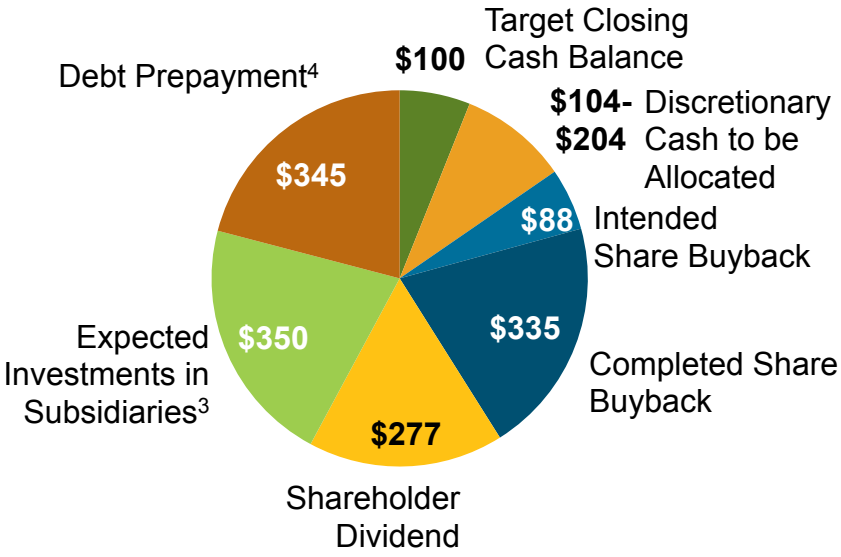
2015 Parent Capital Allocation Plan

$ in Millions

Discretionary Cash – Sources ($1,600-$1,700)



Discretionary Cash – Uses ($1,600-$1,700)



75% Allocated to Debt Prepayment, Dividends & Share Repurchases

1. Includes announced asset sale proceeds of: $453 million (IPALCO, US partnership), $58 million (Armenia Mountain, US), $30 million (IPP4, Jordan partnership) and $32 million (Spain solar).
2. A non-GAAP financial metric. See Appendix for definition and reconciliation.
3. Includes $214 million investment by IPALCO minority partner CDPQ in 2015 that was funded directly by CDPQ to IPALCO.
4. Includes $315 million Parent debt prepayment and costs associated with prepayment and refinancing near-term maturities.

Full Year 2015 Adjusted PTC[1] Modeling Ranges

$ in Millions

SBU	2015 Adjusted PTC[1]		Drivers of Growth Versus 2014
	Modeling Ranges Provided on February 26, 2015[2]	Modeling Ranges Provided on August 10, 2015	
US	$450-$490	$400-$440	+ Lower outages – Lower prices at IPL and DPL – Lower wind production
Andes	$425-$465	$460-$500	+ Higher contributions from Gener in Chile – Hydrology in Colombia
Brazil	$145-$175	$145-$175	– One-time gain at Sul in Q2 2014 – FX
MCAC	$380-$420	$365-$405	+ Hydrology in Panama + Oil-fired barge in Panama – Ancillary services in the Dominican Republic
Europe	$225-$265	$220-$260	– Sale of Ebute – One-time gain in Kazakhstan in Q2 2014 – FX – UK margins – Maritza PPA negotiation
Asia	$80-$100	$90-$120	+ Masinloc performance + Mong Duong on-line
Total SBUs	**$1,705-$1,915**	**$1,680-$1,900**	
Corp/Other	($500)-($540)	($475)-($525)	
Total AES Adjusted PTC[1,2]	**$1,205-$1,375**	**$1,205-$1,375**	

1. A non-GAAP financial metric. See “definitions”.
2. Total AES Adjusted PTC includes after-tax adjusted equity in earnings.

Year-to-Go 2015 Guidance Estimated Sensitivities

Interest Rates[1]

- 100 bps move in interest rates over year-to-go 2015 is equal to a change in EPS of approximately $0.015
- 10% appreciation in USD against the following key currencies is equal to the following negative EPS impacts:

Currencies

	Year-to-Go 2015	
	Average Rate	Sensitivity
Argentine Peso (ARS)	9.67	Less than $0.005
Brazilian Real (BRL)	3.20	$0.005
Colombian Peso (COP)	2,629	$0.005
Euro (EUR)	1.12	Less than $0.005
Great British Pound (GBP)	1.57	Less than $0.005
Kazakhstan Tenge (KZT)	194.2	$0.005

Commodity Sensitivity

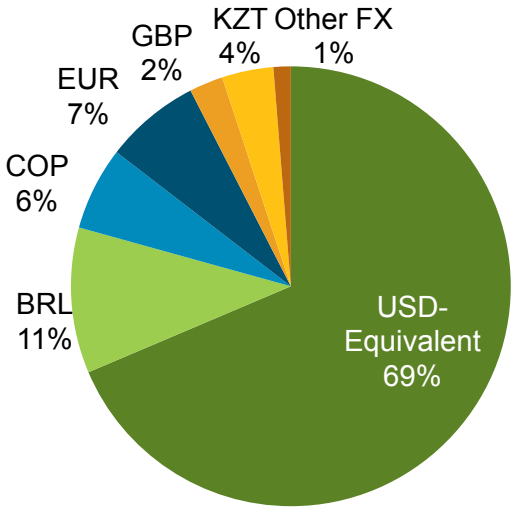
10% increase in commodity prices is forecasted to have the following EPS impacts:	Year-to-Go 2015	
	Average Rate	Sensitivity
NYMEX Coal	$41/ton	$0.005, negative correlation
Rotterdam Coal (API 2)	$60/ton	
NYMEX WTI Crude Oil	$60/bbl	$0.005, positive correlation
IPE Brent Crude Oil	$64/bbl	
NYMEX Henry Hub Natural Gas	$2.9/mmbtu	$0.005, positive correlation
UK National Balancing Point Natural Gas	£0.44/therm	
US Power (DPL) – PJM AD Hub	$ 33/MWh	$0.010, positive correlation

Note: Guidance provided on August 10, 2015. 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 year-to-go 2015 adjusted EPS. Actual results may differ from the sensitivities provided due to execution of risk management strategies, local market dynamics and operational factors. Year-to-go 2015 guidance is based on currency and commodity forward curves and forecasts as of June 30, 2015. 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 3 of the Form 10-Q for a more complete discussion of this topic. AES has exposure to multiple coal, oil, and natural gas, and power indices; forward curves are provided for representative liquid markets. Sensitivities are rounded to the nearest ½ cent per share.

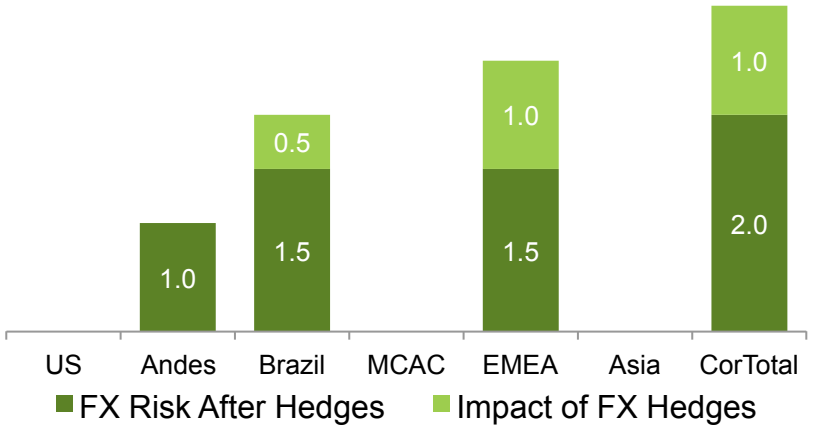
1. The move is applied to the floating interest rate portfolio balances as of June 30, 2015.

2015 Foreign Exchange (FX) Risk Mitigated Through Structuring of Our Businesses and Active Hedging

2015 Adjusted PTC[1] by Currency



2015 Full Year FX Sensitivity[2,3] by SBU (Cents Per Share)

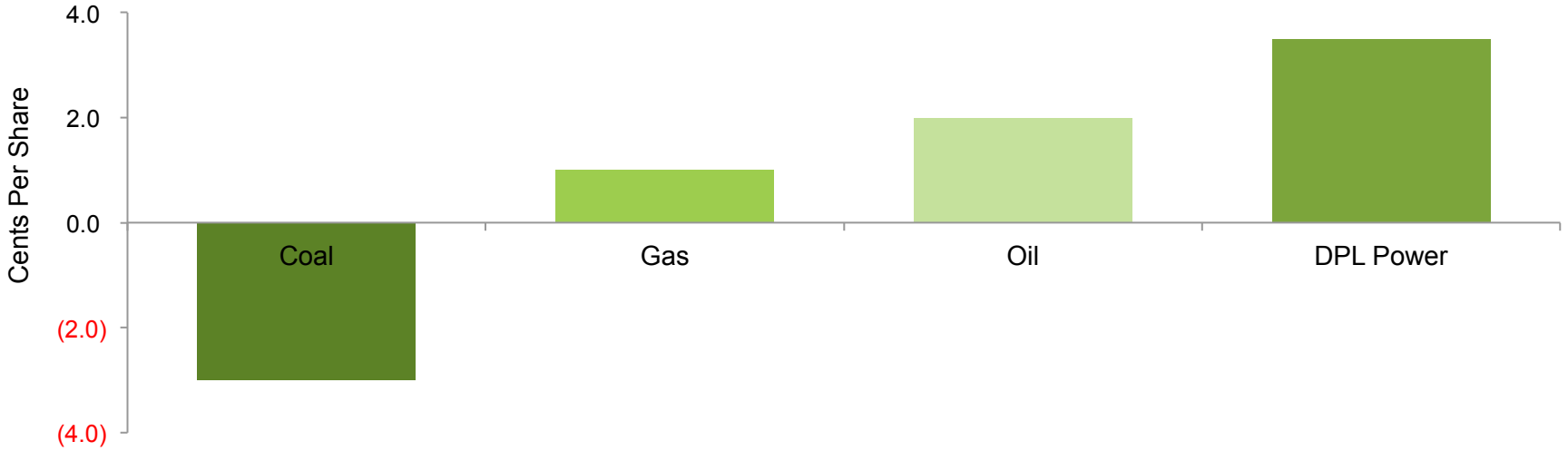


- 2015 correlated FX risk after hedges is $0.02 for 10% USD appreciation
- 69% of 2015 earnings effectively USD
  - USD-based economies (i.e. U.S., Panama)
  - Structuring of our PPAs
- FX risk mitigated on 12-month rolling basis by shorter-term active FX hedging programs

1. Before Corporate Charges. A non-GAAP financial measure. See "definitions" and Slide 34 for reconciliation.
2. Sensitivity represents full year 2015 exposure to a 10% appreciation of USD relative to foreign currency as of December 31, 2014.
3. Andes includes Argentina and Colombia businesses only due to limited translational impact of USD appreciation to Chilean businesses.

Commodity Exposure is Largely Hedged Through 2016, Long on Natural Gas and Oil in Medium- to Long-Term

Full Year 2017 Adjusted EPS[1] Commodity Sensitivity[2] for 10% Change in Commodity Prices



- Mostly hedged through 2016, more open positions in a longer term is the primary driver of increase in commodity sensitivity

1. A non-GAAP financial measure. See “definitions”.
2. Domestic and International sensitivities are combined and assumes each fuel category moves 10%. Adjusted EPS is negatively correlated to coal price movement, and positively correlated to gas, oil and power price movements.

Building the Energy Company of the Future



GROWTH



$7 Billion
Construction Program



INNOVATION



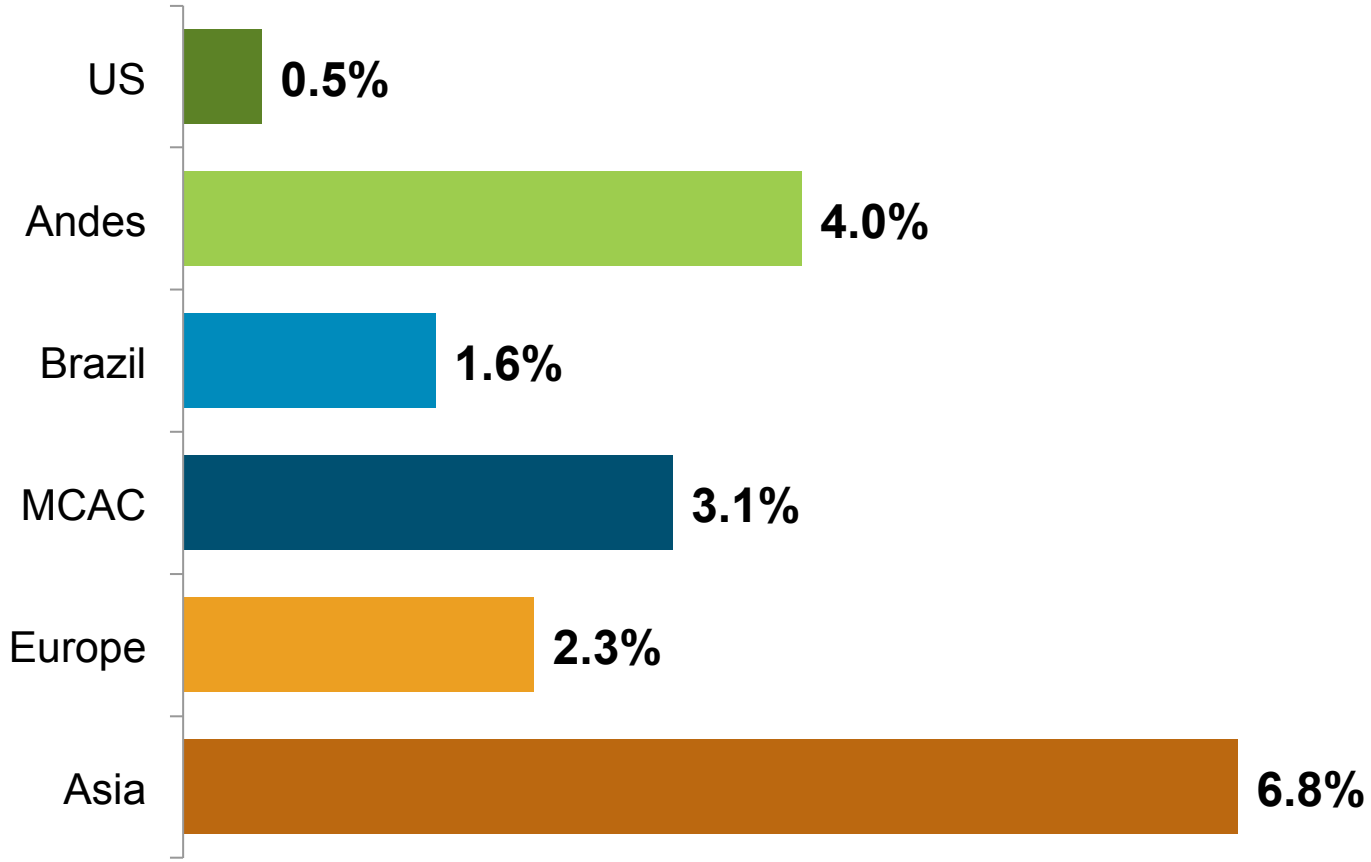
World Leader in Battery-Based Energy Storage



Starting to Implement Distributed Solar PV

Significant Demand Growth in Many AES Markets

Energy Demand Growth 2015-2017 (Annual Average)



Source: AES estimates. SBU averages weighted by Adjusted PTC contributions from each market.

AES Distributed Energy

Emerging Opportunity: Distributed Solar PV



- 65 MW in operation in the United States
- Strong solar resources in AES markets
- Technology improvements driving competitiveness of solar energy

Note: Picture shows Stow distributed energy facility in Massachusetts.

World Leader in Battery-Based Energy Storage

Growing Regulatory Support & Acceptance by Power Systems and Utilities



- 86 MW of installed capacity
- 70 MW under construction and expected on-line through 2016
  - Recently broke ground on three new projects, totaling 40 MW
- 190 MW in late stage development, including 100 MW in California under a 20-year PPA

Note: Picture shows Tait energy storage array in Ohio.

Attractive Returns from 2015-2018 Construction Pipeline; Total Capex $6.9 Billion & Total AES Equity $1.3 Billion

$ in Millions, Unless Otherwise Stated

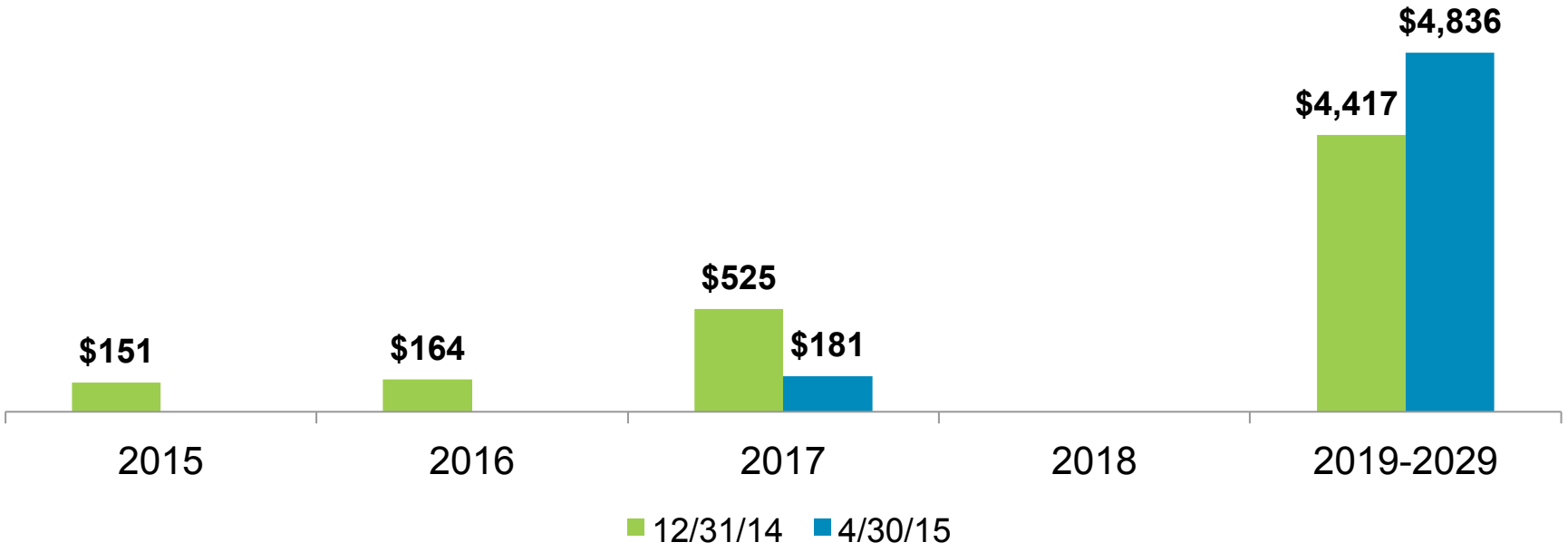
Project	Country	AES Ownership	Fuel	Gross MW	Expected COD	Total Capex	Total AES Equity	ROE	Comments
Construction Projects Coming On-Line 2015-2018									
Guacolda V	Chile	35%	Coal	152	2H 2015	$454	$48		
Andes Solar	Chile	71%	Solar	21	2H 2015	$44	$22		
Tunjita	Colombia	71%	Hydro	20	1H 2016	$67	$2[1]		Lease capital structure at Chivor
IPL MATS	US-IN	75%[2]	Coal		1H 2016	$511	$230		Environmental (MATS) upgrades of 2,400 MW
Cochrane	Chile	42%	Coal	532	2H 2016	$1,350	$130		
Eagle Valley CCGT	US-IN	75%[2]	Gas	671	1H 2017	$585	$263		
DPP Conversion	Dominican Republic	92%	Gas	122	1H 2017	$260	$0		
OPGC 2	India	49%	Coal	1,320	1H 2018	$1,600	$225		
Alto Maipo	Chile	42%	Hydro	531	2H 2018	$2,050	$335		
ROE[3] IN 2018								**>15%**	**Weighted average; net income divided by AES equity contribution**
CASH YIELD[3] IN 2018								**~14%**	**Weighted average; subsidiary distributions divided by AES equity contribution**

1. AES equity contribution equal to 71% of AES Gener's equity contribution to the project.
2. CDPQ will invest an additional $134 million in IPALCO through 2016, in exchange for a 17.65% equity stake, funding existing growth and environmental projects at Indianapolis Power & Light Company (IPL). After completion of these transactions, CDPQ's direct and indirect interests in IPALCO will total 30%, AES will own 85% of AES US Investments, and AES US Investments will own 82.35% of IPALCO.
3. Based on projections. See our 2014 Form 10-K for further discussion of development and construction risks. Based on 2018 contributions from all projects under construction and IPL MATS upgrades. Assumes a full year contribution from Alto Maipo, which is expected to come on-line in 2H 2018.

Reduced 2015-2018 Parent Debt Maturities from $840 Million to $181 Million

$ in Millions

Prepaid $315 Million and Refinanced Majority of Near-Term Maturities with Long-Term Debt



Since 2011, Reduced Parent Debt by $1.5 Billion, or 23%

Reconciliation of Full Year Adjusted PTC[1] & Adjusted EPS[1]

$ in Millions, Except Per Share Amounts	FY 2014		FY 2013	
	Net of NCI[2]	Per Share (Diluted) Net of NCI[2] and Tax	Net of NCI[2]	Per Share (Diluted) Net of NCI[2] and Tax
Loss (Income) from Continuing Operations Attributable to AES and Diluted EPS	$789	$1.09	$284	$0.38
Add Back Income Tax Expense from Continuing Operations Attributable to AES	$228		$156	
Pre-Tax Contribution	$1,017		$440	
Adjustments				
Unrealized Derivative (Gains)/Losses[3]	($135)	($0.12)	($57)	($0.05)
Unrealized Foreign Currency Transaction (Gains)/Losses[4]	$110	$0.14	$41	$0.02
Disposition/Acquisition (Gains)/Losses	($361)	($0.59)[5]	($30)	($0.03)[6]
Impairment Losses	$416	$0.53[7]	$588	$0.75[8]
Loss on Extinguishment of Debt	$274	$0.25[9]	$225	$0.22[10]
ADJUSTED PTC[1] & ADJUSTED EPS[1]	**$1,321**	**$1.30**	**$1,207**	**$1.29**

1. A non-GAAP financial measure. See "definitions".
2. NCI is defined as Noncontrolling Interests
3. Unrealized derivative (gains) losses were net of income tax per share of $(0.07) and $(0.02) in 2014 and 2013 respectively.
4. Unrealized foreign currency transaction (gains) losses were net of income tax per share of $0.02 and $0.02 in 2014 and 2013 respectively.
5. Amount primarily relates to the gain from the sale of a noncontrolling interest in Masinloc of $283 million ($283 million, or $0.39 per share, net of income tax per share of $0.00), the gain from the sale of the UK wind projects of $78 million ($78 million, or $0.11 per share, net of income tax per share of $0.00), the loss from the sale of Ebute of $6 million ($6 million, or $0.01 per share, net of income tax per share of $0.00), the loss from the liquidation of AgCert International of $1 million (net benefit of $18 million, or $0.03 per share, including income tax per share of $0.03), the tax benefit of $24 million ($0.03 per share) related to the Silver Ridge Power transaction, the tax benefit of $18 million ($0.02 per share) associated with the agreement executed in December 2014 to sell a noncontrolling interest in IPALCO, and the tax benefit of $7 million ($0.01 per share) associated with the sale of a noncontrolling interest in our Dominican Republic businesses.
6. Amount primarily relates to the gain from the sale of the remaining 20% of our interest in Cartagena for $20 million ($15 million, or $0.02 per share, net of income tax per share of $0.01) as well as the gain from the sale of Trinidad for $3 million ($4 million, or $0.01 per share, net of income tax per share of $0.00).
7. Amount primarily relates to the goodwill impairments at DPLER of $136 million ($136 million, or $0.19 per share, net of income tax per share of $0.00), and at Buffalo Gap of $28 million ($28 million, or $0.04 per share, net of income tax per share of $0.00), and asset impairments at Ebute of $67 million ($64 million, or $0.09 per share, net of noncontrolling interest of $3 million and of income tax per share of $0.00), at DPL of $12 million ($7 million, or $0.01 per share, net of income tax per share of $0.01), at Newfield of $12 million ($6 million, or $0.01 per share, net of noncontrolling interest of $6 million and of income tax per share of $0.00), and at Elsta of $41 million ($31 million, or $0.04 per share, net of income tax per share of $0.01), as well as the other-than-temporary impairments of our equity method investment at Silver Ridge Power of $42 million ($27 million, or $0.04 per share, net of income tax per share of $0.02), and at Entek of $86 million ($86 million, or $0.12 per share, net of income tax per share of $0.00).
8. Amount primarily relates to the goodwill impairments at DPL of $307 million ($307 million, or $0.41 per share, net of income tax per share of $0.00), at Ebute of $58 million ($58 million, or $0.08 per share, net of income tax per share of $0.00) and at Mountain View of $7 million ($7 million, or $0.01 per share, net of income tax per share of $0.00). Amount also includes an other-than-temporary impairment of our equity method investment at Elsta of $129 million ($128 million, or $0.17 per share, net of income tax per share of $0.00) and asset impairments at Beaver Valley of $46 million ($30 million, or $0.04 per share, net of income tax per share of $0.02), at DPL of $26 million ($17 million, or $0.02 per share, net of income tax per share of $0.01), at Itabo (San Lorenzo) of $16 million ($6 million, or $0.01 per share, net of noncontrolling interest of $8 million and of income tax per share of $0.00), at El Salvador for $4 million ($4 million, or $0.01 per share, net of income tax per share of $0.00).
9. Amount primarily relates to the loss on early retirement of debt at the Parent Company of $200 million ($130 million, or $0.18 per share, net of income tax per share of $0.10), at DPL of $31 million ($20 million, or $0.03 per share, net of income tax per share of $0.02), at Electrica Angamos of $20 million ($11 million, or $0.02 per share, net of noncontrolling interest of $6 million and of income tax per share of $0.00), at UK wind projects of $18 million ($15 million, or $0.02 per share, net of income tax per share of $0.00), at Warrior Run of $8 million ($5 million, or $0.01 per share, net of income tax per share of $0.00) and at Gener of $7 million ($4 million, or $0.01 per share, net of noncontrolling interest of $2 million and of income tax per share of $0.00).
10. Amount primarily relates to the loss on early retirement of debt at Parent Company of $165 million ($107 million, or $0.14 per share, net of income tax per share of $0.08), at Masinloc of $43 million ($39 million, or $0.05 per share, net of income tax per share of $0.00) and Changuinola of $14 million ($10 million, or $0.01 per share, net of income tax per share of $0.01).

Reconciliation of 2015 Guidance

$ in Millions, Except Per Share Amounts

2015 Guidance	
Adjusted EPS[1]	$1.25-$1.35
Proportional Free Cash Flow[1]	$1,000-$1,350
Consolidated Net Cash Provided by Operating Activities	$1,900-$2,700

Reconciliation	Consolidated	Adjustment Factor	Proportional
Consolidated Net Cash Provided by Operating Activities (a)	$1,900-$2,700	$300-$750	$1,600-$1,950
Maintenance & Environmental Capital Expenditures (b)	$650-$950	$200	$450-$750
Free Cash Flow[1] (a - b)	$1,100-$1,900	$100-$550	$1,000-$1,350

- Commodity and foreign currency exchange rates forward curves as of June 30, 2015

1. A non-GAAP financial measure. 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 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 both consolidated entities and entities accounted for under the equity method due 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, adjusted for the same gains or losses excluded from consolidated entities. 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.
- **Adjusted Pre-Tax Contribution** (a non-GAAP financial measure) represents pre-tax income from continuing operations attributable to AES excluding gains or losses of both consolidated entities and entities accounted for under the equity method due 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, adjusted for the same gains or losses excluded from consolidated entities. 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 affects 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 non-recoverable 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 (Continued)

- **Proportional Free Cash Flow** – The Company defines Proportional Free Cash Flow as cash flows from operating activities less maintenance capital expenditures (including non-recoverable environmental capital expenditures), adjusted for the estimated impact of noncontrolling interests. The proportionate share of cash flows and related adjustments attributable to noncontrolling interests in our subsidiaries comprise the proportional adjustment factor presented in the reconciliation below. Upon the Company's adoption of the accounting guidance for service concession arrangements effective January 1, 2015, capital expenditures related to service concession assets that would have been classified as investing activities on the Condensed Consolidated Statement of Cash Flows are now classified as operating activities.
  Beginning in the first quarter of 2015, the Company changed the definition of Proportional Free Cash Flow to exclude the cash flows for capital expenditures related to service concession assets that are now classified within net cash provided by operating activities on the Condensed Consolidated Statement of Cash Flows. The proportional adjustment factor for these capital expenditures is presented in the reconciliation below.
  The Company excludes environmental capital expenditures that are expected to be recovered through regulatory, contractual or other mechanisms. An example of recoverable environmental capital expenditures is IPL's investment in MATS-related environmental upgrades that are recovered through a tracker.
  The GAAP measure most comparable to proportional free cash flow is cash flows from operating activities. We believe that proportional free cash flow better reflects the underlying business performance of the Company, as it measures the cash generated by the business, after the funding of maintenance capital expenditures, that may be available for investing or repaying debt or other purposes. Factors in this determination include the impact of noncontrolling interests, where AES consolidates the results of a subsidiary that is not wholly owned by the Company.
- **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. Beginning in Q1 2015, the definition was revised to also exclude cash flows related to service concession assets.
  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.
  The proportional adjustment factor, proportional maintenance capital expenditures (net of reinsurance proceeds), and proportional non-recoverable environmental capital expenditures are calculated by multiplying the percentage owned by non-controlling interests for each entity by its corresponding consolidated cash flow metric and adding up the resulting figures. For example, the Company owns approximately 70% of AES Gener, its subsidiary in Chile. Assuming a consolidated net cash flow from operating activities of $100 from AES Gener, the proportional adjustment factor for AES Gener would equal approximately $30 (or $100 x 30%). The Company calculates the proportional adjustment factor for each consolidated business in this manner and then adds these amounts together to determine the total proportional adjustment factor used in the reconciliation. The proportional adjustment factor may differ from the proportion of income attributable to non-controlling interests as a result of (a) non-cash items which impact income but not cash and (b) AES' ownership interest in the subsidiary where such items occur.
- **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.