The AES Corporation

ESG Update





December 2020

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, the impact of the COVID-19 pandemic on our business, 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 the execution of PPAs, conversion of our backlog and growth from investments at investment levels and rates of return consistent with prior experience. For additional assumptions see Slide 38 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' 2019 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.

Reconciliation to U.S. GAAP Financial Information

The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934, as amended. Schedules are included herein that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP.

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Accelerating the future of energy, together

Our Strategy: AES is Leading the Energy Transition

Sustainable Growth

- → 100% of 6.8 GW backlog (signed PPAs or projects under construction) is renewables: wind, solar and energy storage
- → Providing enabling technologies such as energy storage and cloud-based energy efficiency

FLUENCE
A Siemens and AES Company

uplight

Innovative Solutions

- → Developing and deploying innovative solutions to reduce carbon emissions and promote clean energy across the entire sector
- → Winner of six EEI Edison awards over last 10 years



EEI
Edison Electric
INSTITUTE

Superior Results

- → Syncing environmental and financial goals, including EPS and cash flow growth
- → Outperformed S&P Utilities Index over 1, 3 and 5 years
- → Upgraded to investment grade by Fitch and S&P

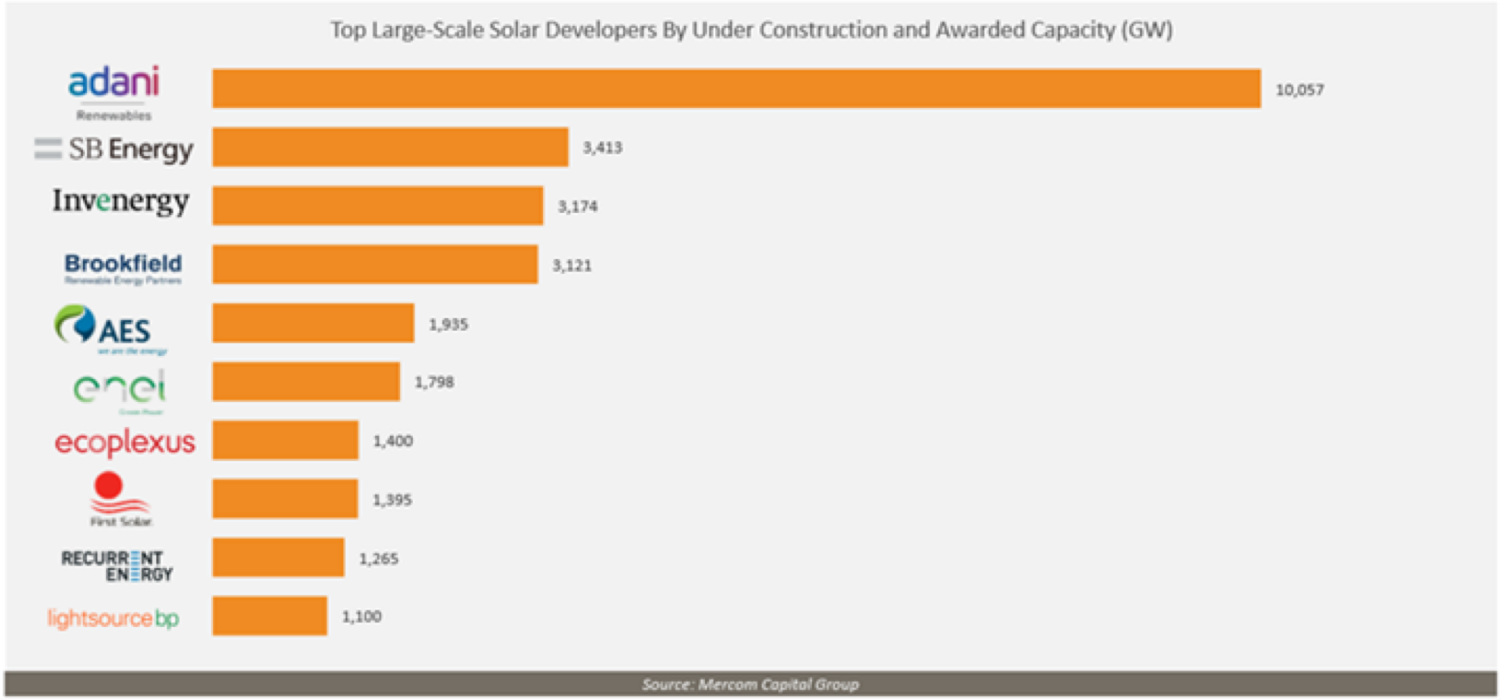
FitchRatings

S&P Global
Ratings

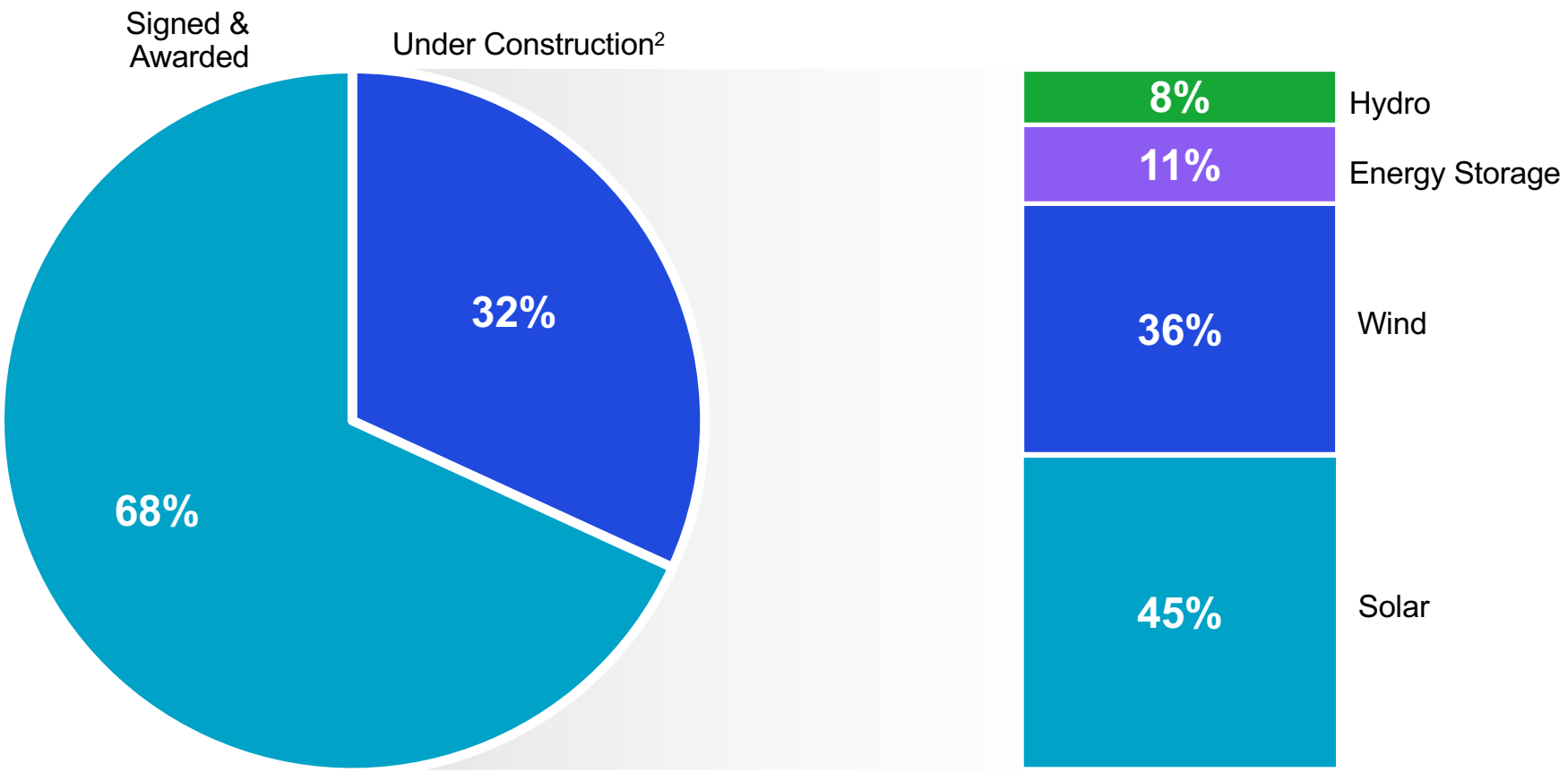
aes

Sustainable Growth: One of the Largest Solar Developers Worldwide

Top Global Large-Scale Solar Developers by Under Construction and Awarded Capacity



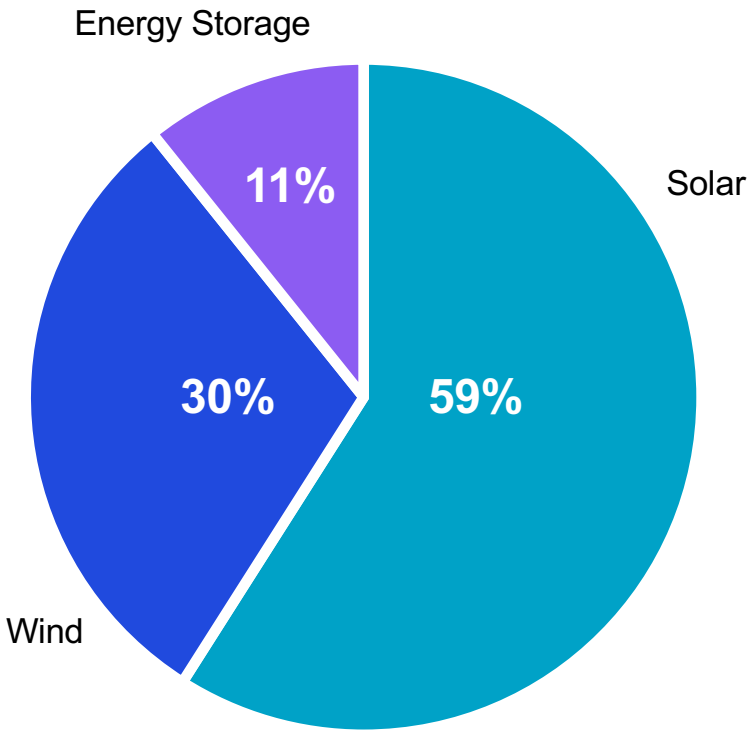
Sustainable Growth: 6.8 GW Backlog 100% Renewables[1]



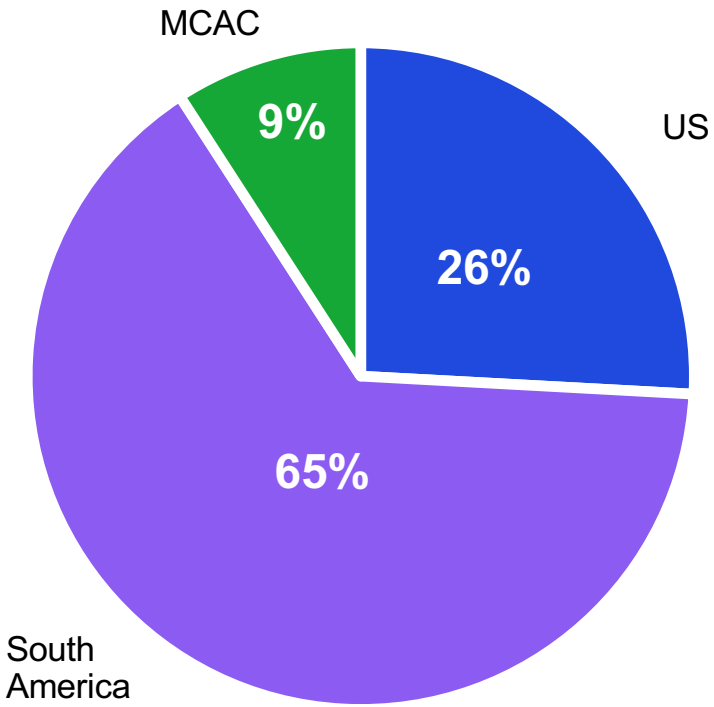
1. US & Utilities: 2,654 MW; South America: 3,552 MW; MCAC: 600 MW.
2. As of September 30, 2020.

Sustainable Growth: 2.1 GW of Renewables Awarded or Signed Under Long-Term PPAs in YTD 2020

Technology



Geography

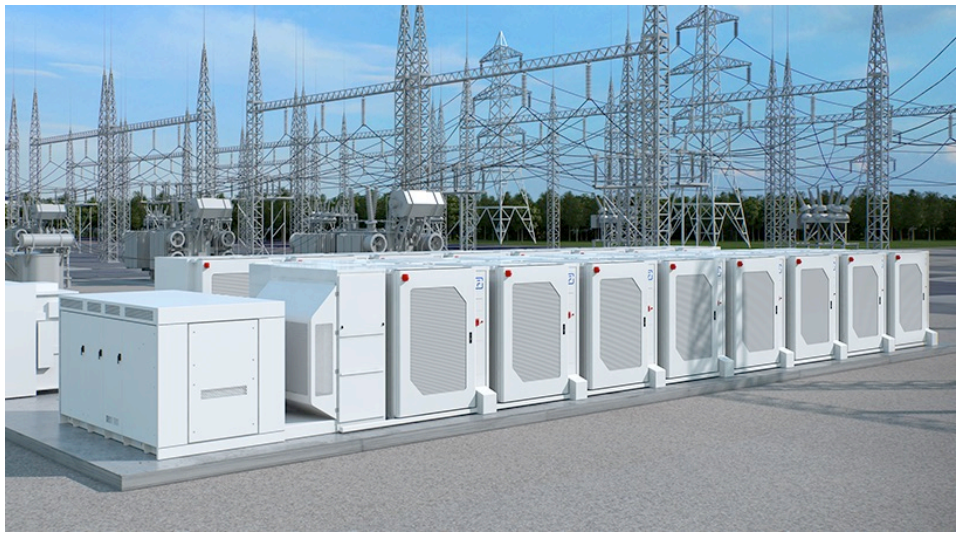


Sustainable Growth: Global Leader in Energy Storage

AES + Siemens
Established Channel Partners

~2.4 GW
Delivered or Awarded
(Global Market Leader)

40+
Digital Applications



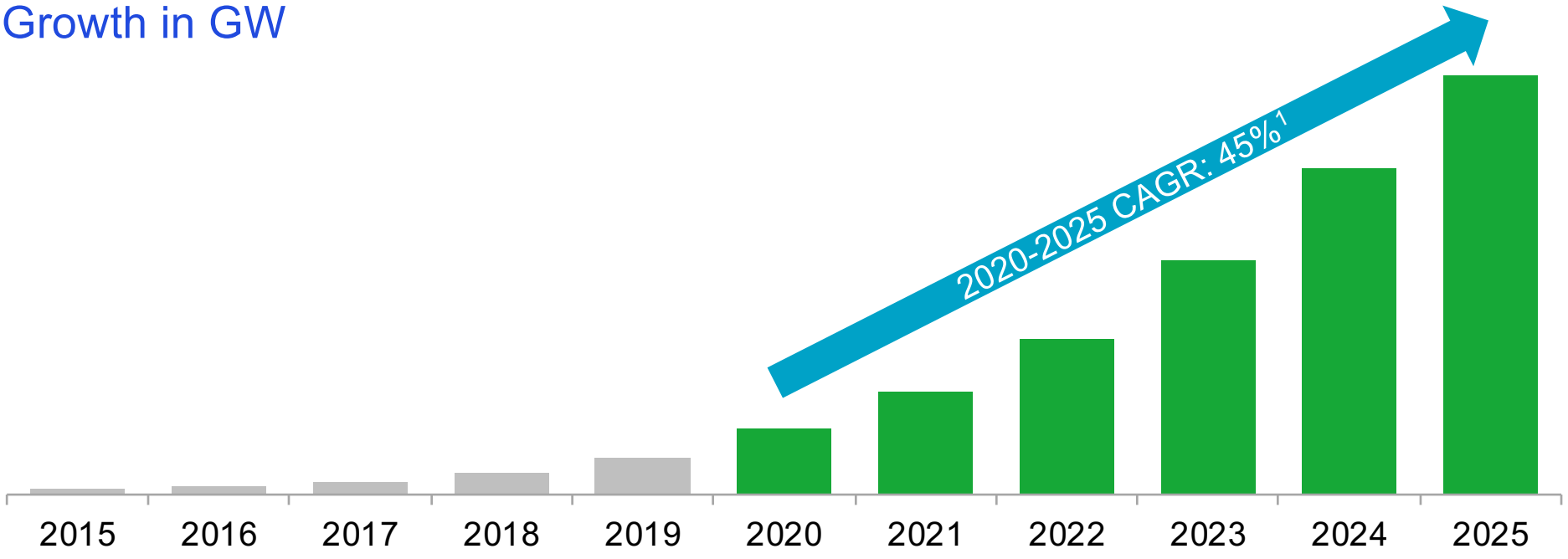
Sustainable Growth: Fluence is Present in 24 Countries & Territories



Energy Storage Key to Enabling India's Ambition to Add 500 GW of Renewable Energy by 2030

Sustainable Growth: Global Leader in Energy Storage

Growth in GW



Goal: To Cost Effectively Enable the Rapid Incorporation of Renewables onto the Grid

1. Source: Bloomberg New Energy Finance.

Sustainable Growth: Decarbonizing the Mining Sector with >2 GW of Renewable Additions

Systematically Transitioning the Mining Sector to Low-Carbon and Carbon-Free Energy



Andes Solar 2b in Chile

→ 180 MW (under construction) with bifacial panels

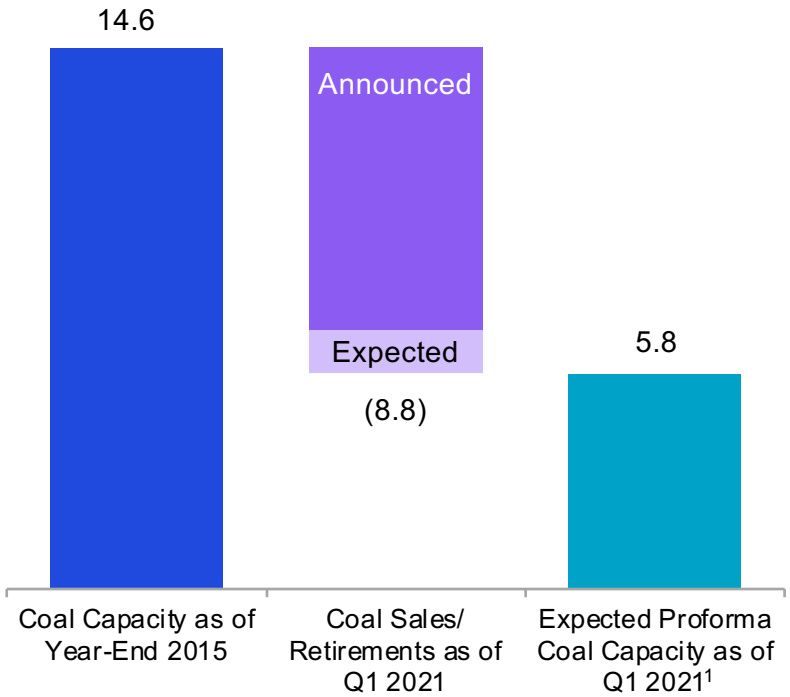
→ 560 MWh of energy storage, the largest in Latin America

→ Provides power to multiple major mining companies in lieu of thermal generation

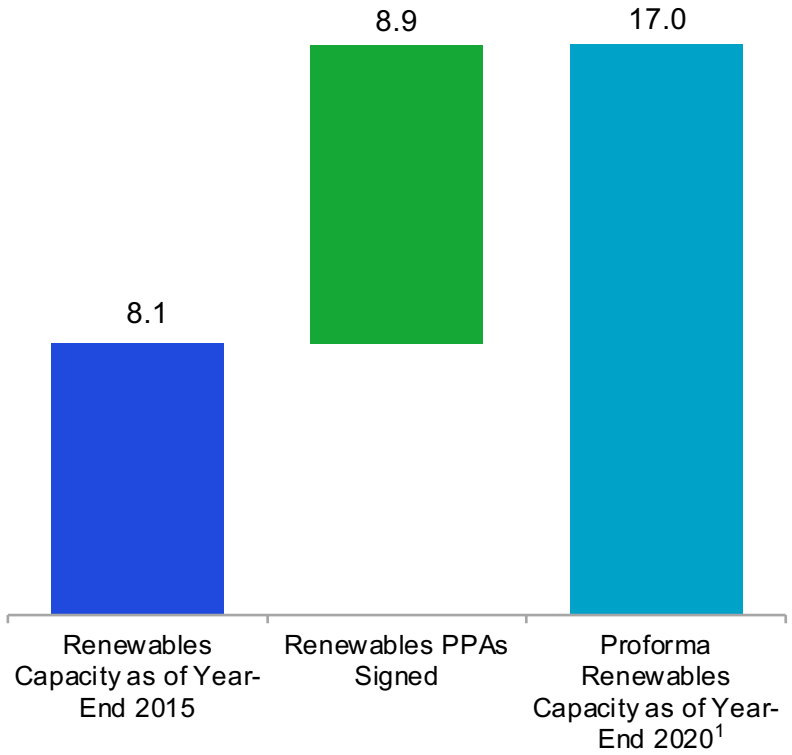
On Pace to Reduce CO_2 Emissions from the Mining Sector by ~4.5 Million Metric Tons Per Year

Reducing Coal Capacity While Growing Renewables

Reducing Coal Capacity in GW



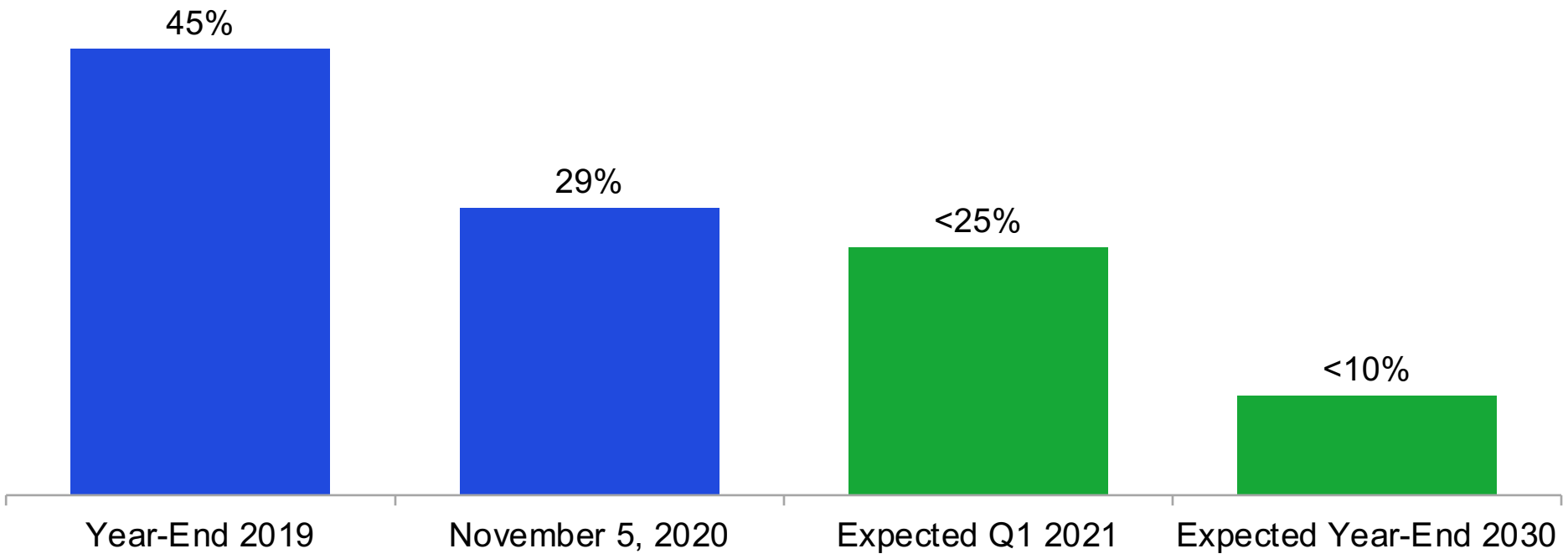
Growing Renewables in GW



1. Based on the portfolio as of, or expected by, the relevant date, including asset sales that are announced, but not yet closed and signed PPAs.

Transforming Business Mix, While Delivering a Double-Digit Total Return[1]

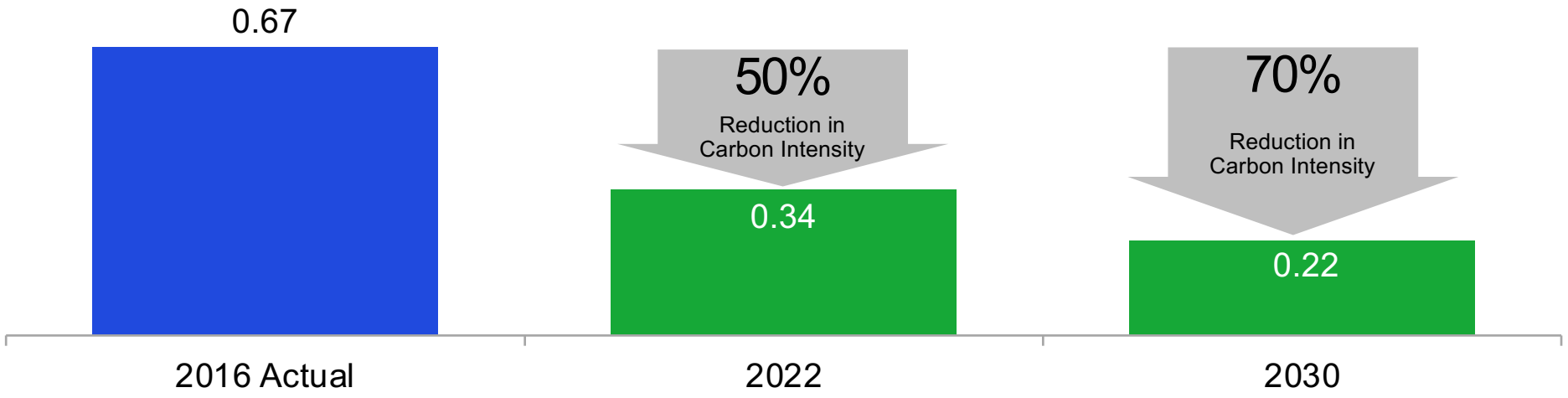
Making Substantial Progress Toward Reducing Generation (MWh) from Coal[2]



1. 7% to 9% average annual growth in Adjusted EPS through 2022, plus ~3% dividend yield.
2. Based on the portfolio as of, or expected by, the relevant date, including asset sales that are announced, but not yet closed. 2020 retirements and asset sales correspond to CO_2 emissions of ~15 million metric tons/year.

Our Commitment to Sustainability: Goal to Have Zero Carbon Emissions from Electricity by 2050

Significantly Reducing Carbon Intensity (Tons of CO_2/MWh of Generation)



→ Expect to sell or retire 8.8 GW of coal plants since 2016

→ On pace to sign 15 GW of renewables through 2024

Leadership in Innovation: Consistently Recognized by Edison Electric Institute



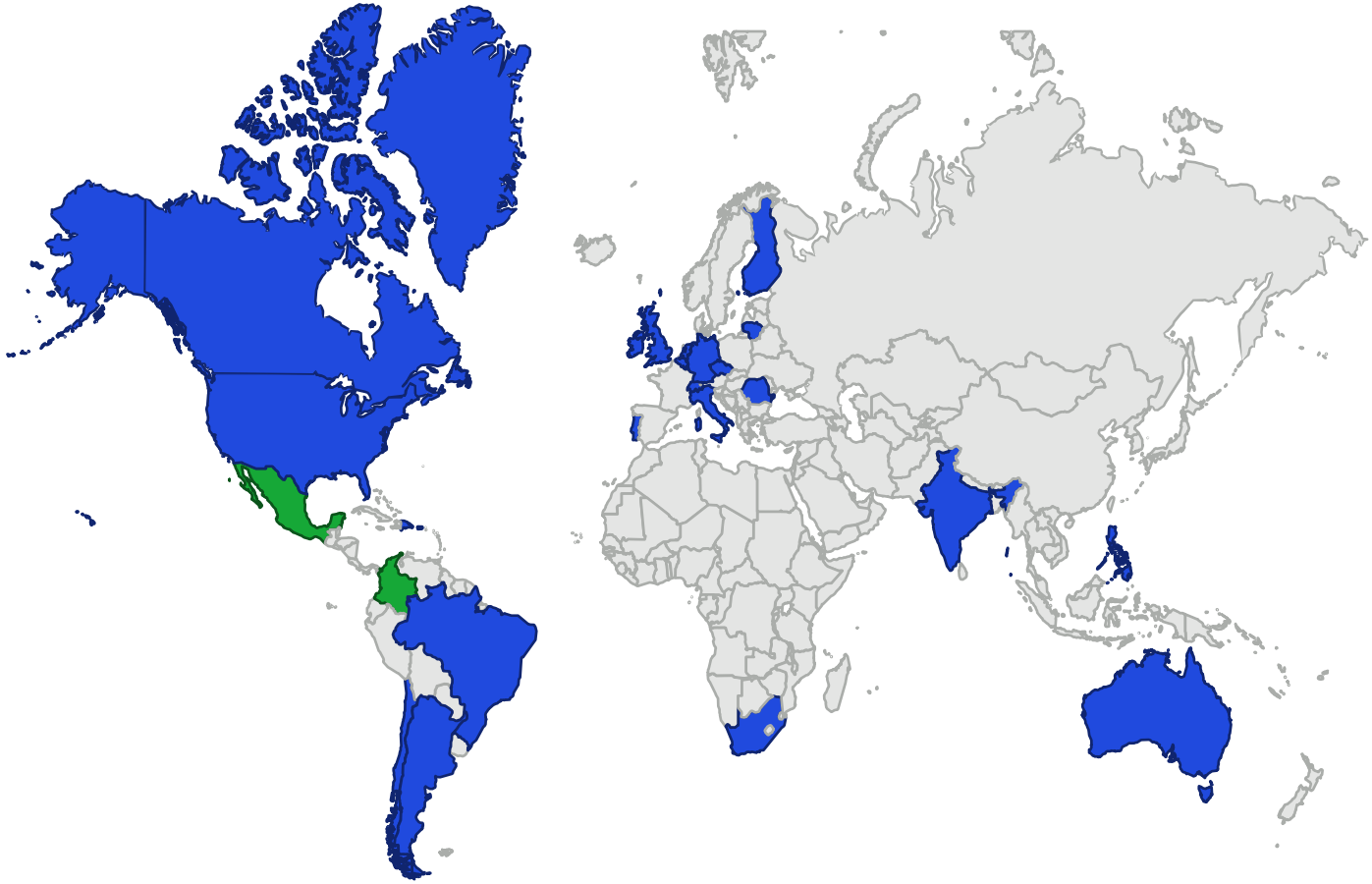
Selected for Industry's Most Prestigious Award Six Times

- → AES in Latin America (2007)
- → Masinloc in the Philippines (2011)
- → Angamos in Chile (2012)
- → Sonel in Cameroon (2013)
- → Development and deployment of Advancion 4 energy storage system (2016)
- → Lāwa'i in Hawaii (2019) Award for world's largest 24/7 solar and energy storage



Lāwa'i Eliminates ~38,000 Metric Tons of CO_2 Annually

Leadership in Innovation: Fluence Present in 24 Countries and Territories



- Argentina
- Australia
- Belgium
- Brazil
- Canada
- Chile
- Czech Republic
- Dominican Republic
- Finland
- Germany
- India
- Ireland
- Italy
- Lithuania
- The Netherlands
- Northern Ireland
- Philippines
- Portugal
- Puerto Rico
- Romania
- South Africa
- Switzerland
- United Kingdom
- United States of America

Leadership in Innovation: “Virtual Reservoir” for Run-of-the-River Hydropower Projects, Utilizing Energy Storage

→ Commissioned the world’s first virtual reservoir, with 10 MW, or 50 MWh, of battery-based energy storage in Chile

- Ability to expand up to 250 MW, or 1,250 MWh
- Charge when power prices are low, and then discharge in peak hours
- Provides capacity when it is most needed



Leadership in Innovation: Supporting Energy Efficiency

uplight™



Certified B Corporation

- → Largest cloud-based energy efficiency provider in the world
- → Works with over 80 electric and gas utilities and reaches over 100 million households and businesses in the US
- → Provides utilities and customers with a suite of digital services, including an online marketplace
- → Has offset over 5.3 TWh of electricity through education, behavioral energy efficiency programs and enabling technology
- → Goal to abate 100 million tons of CO_2 by 2025

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Leadership in Innovation: Recent Investment in 5B, a Prefabricated Solar Solution Provider



- → Patented technology allows for solar projects to be installed up to three times faster using half the land
- → Expect to utilize 5B's technology in select projects across our pipeline to speed up delivery time and lower costs
- → 5B chosen as the preferred provider to build up to 10 GW of solar in Australia for export to Singapore via the Sun Cable Australia-Singapore Power Link project

Leadership in Innovation: Uniquely Combining New Technologies to Maximize Carbon-Free Energy



Superior Results: Recognized for Our Commitment to Sustainability

We are Committed to Improving Our Carbon Footprint and are Leading the Innovation of New Technologies that Empower Others As Well

MSCI ESG RATINGS AA
CCC B BB BBB A AA AAA

Since 2014
Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

ISS ESG

FTSE4Good

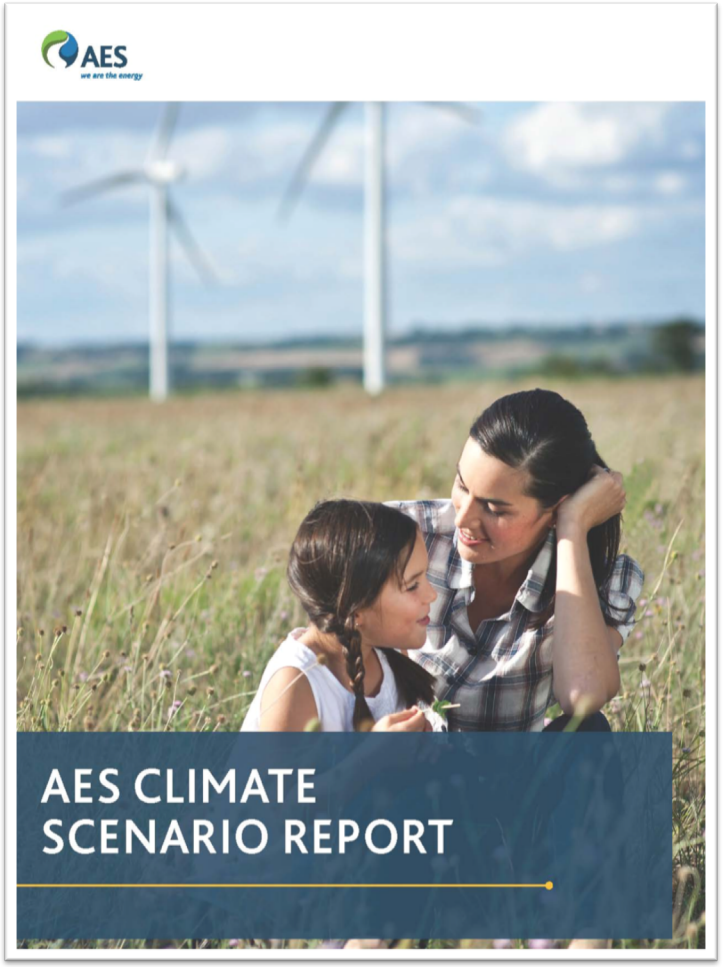
CDP
DRIVING SUSTAINABLE ECONOMIES

Great Place To Work.®

2020 WORLD'S MOST ETHICAL COMPANIES® ™
WWW.ETHISPHERE.COM
7 TIME HONOREE

aes

AES' Climate Scenario Report Published in 2018



First Publicly-Traded US Power and Utility Company to Disclose its Portfolio's Resilience Consistent with the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Superior Results: Adding Value to our Communities





→ Community engagement: supporting renewable growth and promoting local empowerment through partnerships and cultural preservation

- La Guajira, Colombia

→ Employment: hiring locally for construction and operations, as well as suppliers

- Colon, Panama

→ Diversity and inclusion: offering vocational training in residential electrical installations for women.

- AES Mujer, El Salvador

Superior Results: Our History of Reforestation and Protection



C4 THE NEW YORK TIMES **THE ENVIRONMENT** TUESDAY, MAY

Joining Forces to Protect a Paraguayan Forest

Mbaracayú is a vital haven for numerous species.

By ELIZABETH HEILMAN BROOKE

MBARACAYÚ, Paraguay

SINCE 1989, when a military coup ended the 35-year dictatorship of Alfredo Stroessner, there has been a democratic awakening in Paraguay, and interest in safeguarding the country's natural resources has blossomed.

A major focus of this attention is Mbaracayú, a 225-square-mile extension of Brazil's Atlantic forest system. It is one of the last great tracts of privately owned subtropical forest in South America.

"Mbaracayú is unique because physically there is no larger piece of land that is virtually undisturbed," said Alan Randall, Paraguayan program director for the Nature Conservancy, one participant in a coalition of governmental and private entities seeking to protect the larger of Mbaracayú's two parcels on Paraguay's eastern border with Brazil.

Alwyn H. Gentry, senior curator of the Missouri Botanical Gardens, called Mbaracayú "one of the most important remaining examples of 'Alto Paraná,' a high-forest type unusually rich in endemic species, found there and nowhere else."

Atlantic Forest species that have disappeared from the forest proper.

"It is the last refuge for many species," said Mr. Randall. "It is a bird sanctuary and is particularly rich in fruits and nuts which provide subsistence for the local Indian population."

The two parcels of land that make up the Mbaracayú property, one of 143,000 acres, another of 27,000, have been owned since 1979 by the International Finance Corporation, an arm of the World Bank that gained title because of the bankruptcy of a timber company. While the properties, which are about 50 miles apart, have been maintained and their borders protected, the land is threatened by poachers, landless peasants and those wishing to develop the land.

The Moisés Bertoni Foundation, a Paraguayan conservation group started in Asunción in 1988, has forged an unusual preservation alliance. It involves the World Bank, the Nature Conservancy, the United States Agency for International Development, the Government of Paraguay and AES Barbers Point, a private American company that is financing a survey of Mbaracayú property to determine the amount of carbon that will be sequestered by preserving the existing forest. The company is a wholly owned subsidiary of Applied Energy Services of Arlington, Va.

In a precedent for the World Bank, the International Finance Corporation is selling a property below market value to a conservation organization. After the Paraguayan Govern-

Plans to preserve the Mbaracayú forest in Paraguay include program

forest also include programs to allow the 1,000 remaining Aché to hunt and gather there and to help them make the transition to agriculture and animal husbandry.

plained that Mbaracayú means yel low macaw in Guaraní, the second official language of Paraguay.

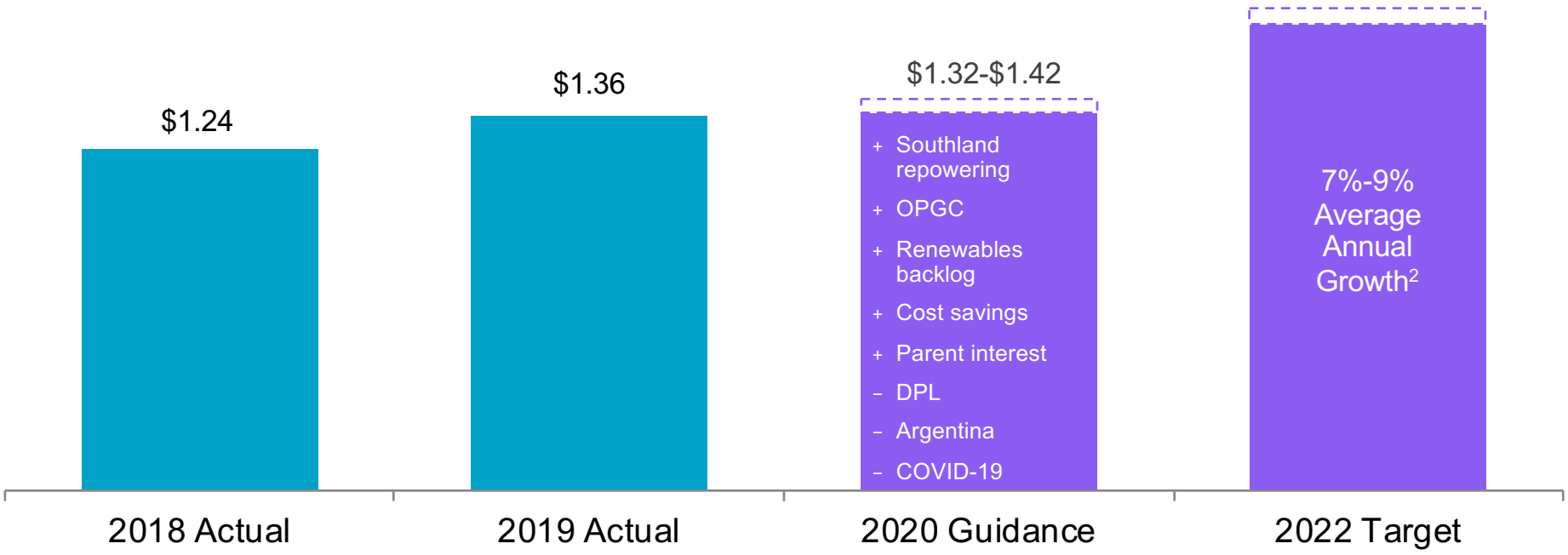
The Mbaracayú property holds a range of habitats. Fifteen percent



- → Began carbon offsetting in the 1980s, in partnership with organizations such as the World Resources Institute
- → Partnered with the Nature Conservancy to establish the Moises Bertoni Foundation, which owns one of the largest tracts of undisturbed forest in Paraguay
- → Has funded major reforestation projects in Brazil, Guatemala, Peru, Ecuador, Bolivia, Panama and Chile
- → Planted **over 10 million trees** to-date

Superior Results: Adjusted EPS[1] Guidance and Longer-Term Growth Rate Target

$ Per Share



1. A non-GAAP financial measure. See Appendix for definition. The Company is not able to provide a corresponding GAAP equivalent or reconciliation for its Adjusted EPS guidance without unreasonable effort. See Slide 36 for a description of the adjustments to reconcile Adjusted EPS to diluted EPS for 2018-2019. Reaffirmed November 6, 2020.
2. From a base of 2018 Adjusted EPS of $1.24.

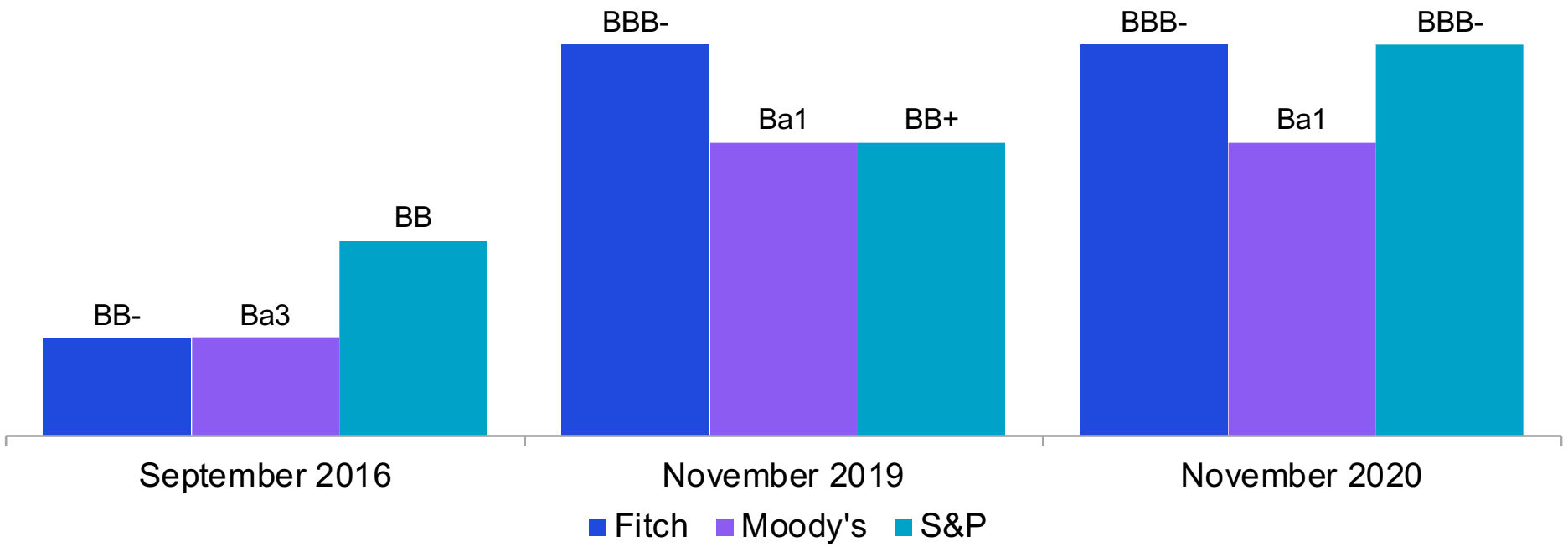
Superior Results: Parent Free Cash Flow[1] Expectation and Longer-Term Growth Rate Target

$ in Millions



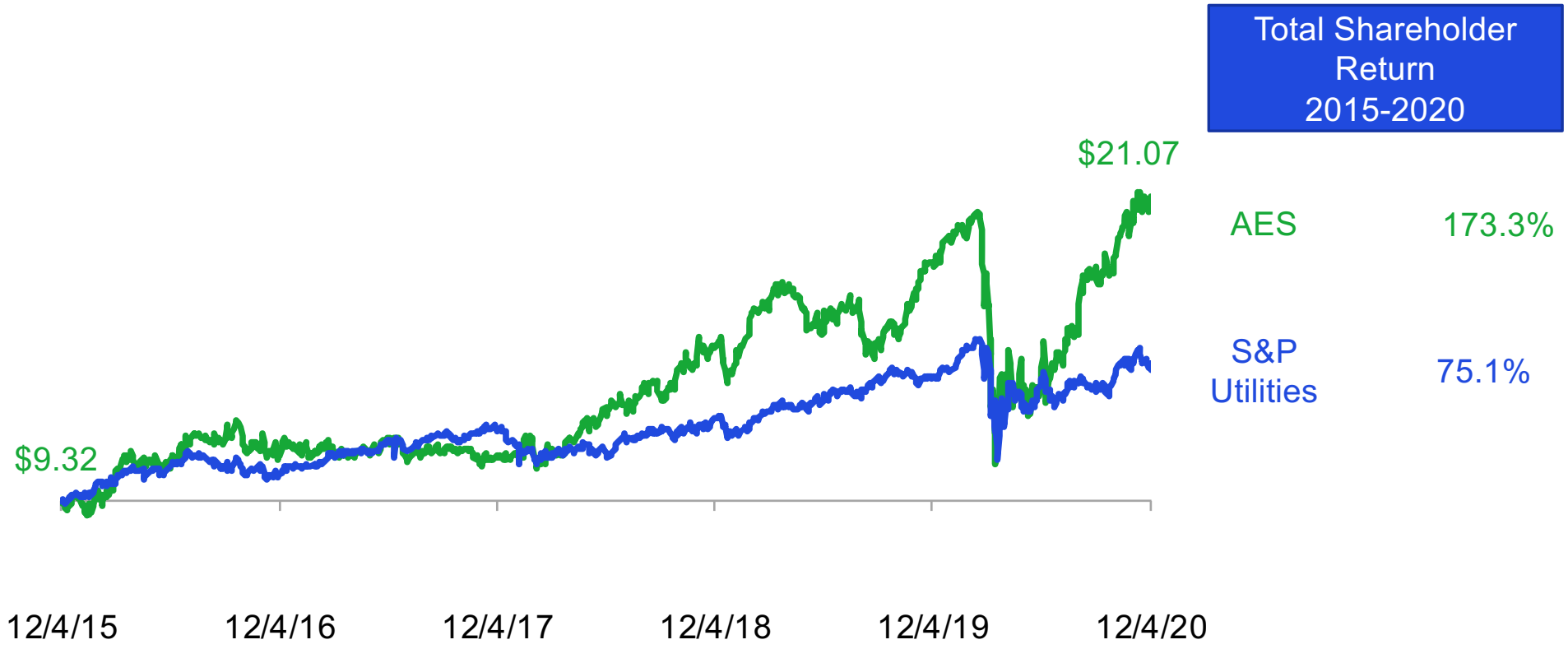
1. A non-GAAP financial measure. See Appendix for definition. The Company is not able to provide a corresponding GAAP equivalent or reconciliation for its Parent Free Cash Flow expectation without unreasonable effort. See Slide 37 for a description of the adjustments to reconcile Parent Free Cash Flow to Net Cash Provided by Operating Activities at the Parent Company for 2018-2019. Reaffirmed November 6, 2020.
2. From a base of 2018 Parent Free Cash Flow of $689 million.

Superior Results: Positive Actions by Ratings Agencies



Investment Grade Ratings Reflect Transformation to Strengthen Balance Sheet and Simplify Portfolio

Superior Results: AES has Outperformed the S&P Utilities Index Over the Last Five Years



Appendix

PPAs Awarded or Signed in YTD 2020	Slide 31
Coal Sales & Retirements	Slide 32
Top Scores from ISS in ESG Practices	Slide 33
Issued $1.8 Billion in Green Bonds	Slide 34
Reconciliations	Slides 35-37
Assumptions & Definitions	Slides 38-39

PPAs Awarded or Signed in YTD 2020

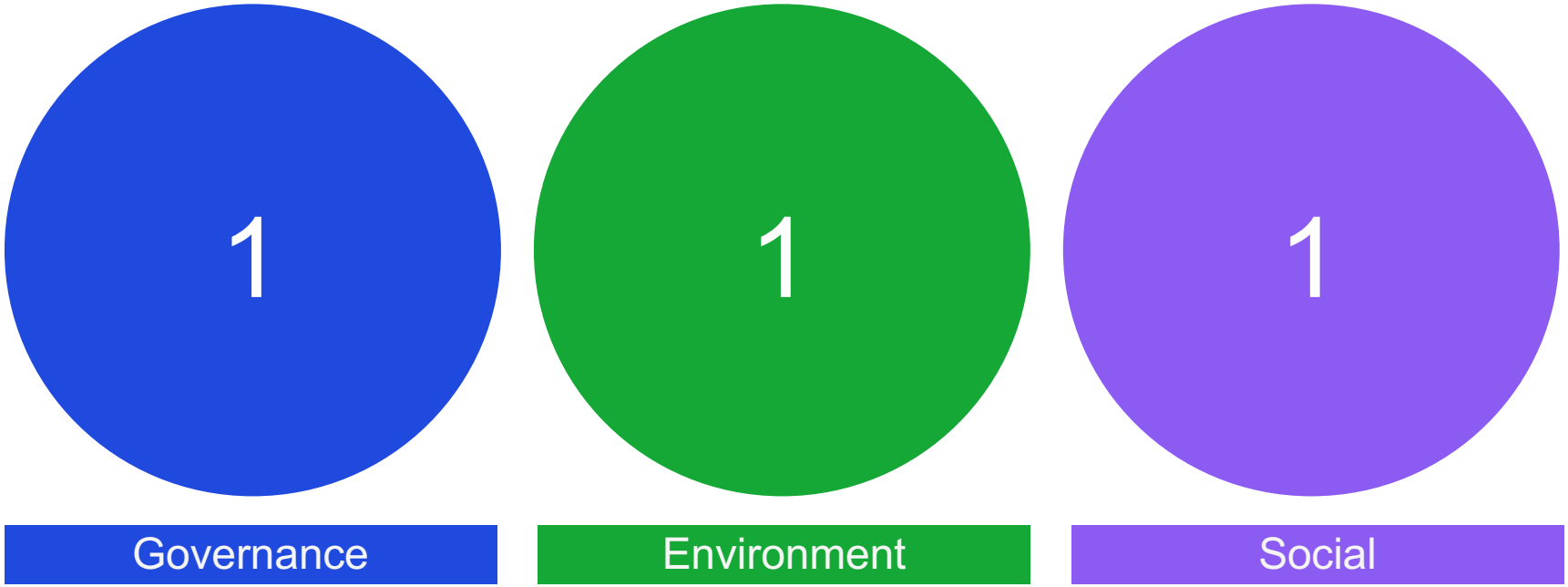
Project	Location	Technology	Gross MW	AES Equity Interest	Expected COD[1]	PPA Length (Years)
AES Gener	Chile & Colombia	Solar	782	67%	1H 2021-2H 2023	10-21
		Wind	391			
AES DE	US-Various	Solar	91	100%	1H-2H 2021	20
		Energy Storage	97			
sPower	US-CA	Solar	226	50%	1H 2023	20
		Energy Storage	128		2H 2021	15
AES Panama	Panama	Wind	55	49%	In Operation[2]	3
		Solar	16	49%	1H 2023	13
Suacero	Mexico	Wind	109	50%	1H 2023	20
AES Tietê	Brazil	Wind	187	43%	In Operation[3]	20
AES Dominicana	Dominican Republic	Solar	11	85%	1H 2021-1H 2022	12
Total YTD 2020			2,093			

1. Commercial Operations Date.
2. Acquisition closed in April 2020.
3. Acquisition expected to close by year-end 2020.

Announced Sale or Retirement of 7.6 GW of Coal Generation

Business	Location	Capacity in GW
AES Hawaii	US-HI	0.3
Petersburg 1&2 (IPALCO)	US-IN	0.6
DP&L	US-OH	3.1
Shady Point	US-OK	0.4
Ventanas 1&2 (AES Gener)	Chile	0.3
Kazakhstan	Kazakhstan	1.7
Masinloc	Philippines	0.6
Kilroot	United Kingdom	0.6
Total		7.6

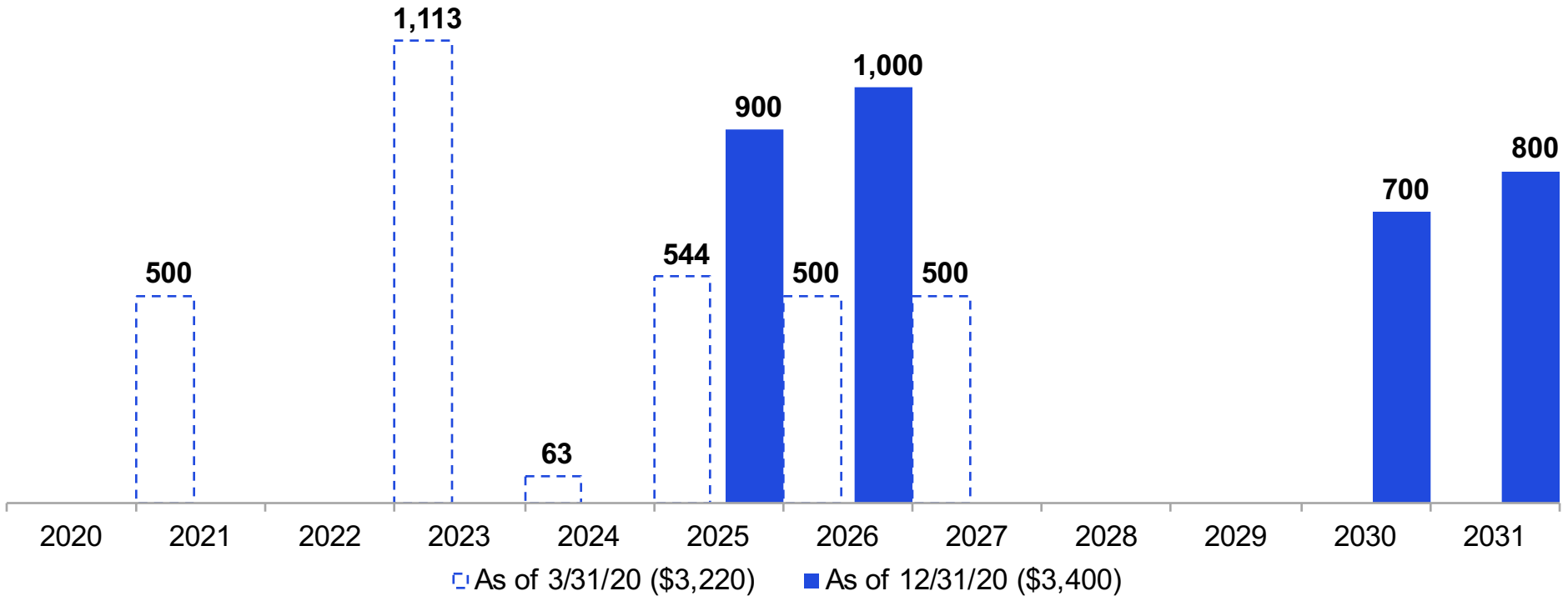
AES Receives Top Scores from ISS for Its Governance, Social and Environmental Practices



Institutional Shareholder Service ("ISS") QualityScore rankings range from 1 to 10, with a lower score indicating a lower risk. A "1" is the best score, indicating a copy is in the top ten percent of all companies within its industry with respect to governance practices.

Issued $1.8 Billion in Green Bonds to Invest in Renewables; Pushed Out Near-Term Maturities

Long-Term Debt Balance March vs. December ($ in Millions)



Executed $3.4 Billion in Refinancings in 2020, Extending Maturities and Lowering Interest Expense by ~$70 Million (5.0% Blended Cost Previously vs. 2.7% Now)

Reconciliation of YTD Adjusted PTC[1] and Adjusted EPS[1]

$ in Millions, Except Per Share Amounts	YTD 2020		YTD 2019	
	Net of NCI[2]	Per Share (Diluted) Net of NCI[2]	Net of NCI[2]	Per Share (Diluted) Net of NCI[2]
Income (Loss) from Continuing Operations, Net of Tax, Attributable to AES and Diluted EPS	($275)	($0.41)	$380	$0.57
Add: Income Tax Expense (Benefit) from Continuing Operations Attributable to AES	$38		$215	
Pre-Tax Contribution	($237)		$595	
Adjustments				
Unrealized Derivative and Equity Securities Losses	$24	$0.04[3]	$78	$0.12[4]
Unrealized Foreign Currency Losses (Gains)	($7)	($0.01)	$49	$0.06[5]
Disposition/Acquisition Losses (Gains)	$130	$0.20[6]	($3)	-
Impairment Expense	$878	$1.31[7]	$124	$0.19[8]
Loss on Extinguishment of Debt	$103	$0.15[9]	$95	$0.14[10]
Net Gains from Early Contract Terminations at Angamos	($72)	($0.11)[11]	-	-
U.S. Tax Law Reform Impact	-	$0.02[12]	-	$0.01
Less: Net Income Tax Benefit	-	($0.23)[13]	-	($0.07)[14]
Adjusted PTC[1] & Adjusted EPS[1]	$819	$0.96	$938	$1.02

1. A Non-GAAP financial measure. See “definitions”.
2. NCI is defined as Noncontrolling Interests.
3. Amounts primarily relate to unrealized derivative losses in Argentina mainly associated with foreign currency derivatives on government receivables of $18 million, or $0.03 per share.
4. Amounts primarily relate to unrealized derivative losses in Argentina of $77 million, or $0.12 per share, mainly associated with foreign currency derivatives on government receivables.
5. Amounts primarily relate to unrealized FX losses in Argentina of $23 million, or $0.03 per share, mainly associated with the devaluation of long-term receivables denominated in Argentine pesos; and unrealized FX losses at the Parent Company of $22 million, or $0.03 per share, mainly associated with intercompany receivables denominated in Euro.
6. Amount primarily relates to loss on sale of Uruguaiana of $85 million, or $0.13 per share, loss on sale of the Kazakhstan HPPs of $30 million, or $0.05 per share, as result of the final arbitration decision, and advisor fees associated with the successful acquisition of additional ownership interest in Tietê of $9 million, or $0.01 per share.
7. Amount primarily relates to asset impairments at Gener of $527 million, or $0.79 per share, other-than-temporary impairment of OPGC of $201 million, or $0.30 per share, impairment at our Guacolda equity affiliate impacting equity earnings by $81 million, or $0.12 per share, impairment at Hawaii of $38 million, or $0.06 per share, impairment at Panama of $15 million, or $0.02 per share, and impairments at our sPower equity affiliate, impacting equity earnings by $16 million, or $0.02 per share.
8. Amount primarily relates to asset impairments at Kilroot and Ballylumford of $115 million, or $0.17 per share.
9. Amount primarily relates to losses on early retirement of debt at the Parent Company of $37 million, or $0.06 per share, DPL of $32 million, or $0.05 per share, Panama of $11 million, or $0.02 per share, and Angamos of $10 million, or $0.02 per share.
10. Amount primarily relates to losses on early retirement of debt at DPL of $45 million, or $0.07 per share, Mong Duong of $16 million, or $0.02 per share, and Colon of $14 million, or $0.02 per share.
11. Amounts primarily relate to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of $72 million, or $0.11 per share.
12. Amount represents adjustment to tax law reform remeasurement due to incremental deferred taxes related to DPL of $16 million, or $0.02 per share.
13. Amounts primarily relate to income tax benefits associated with the impairments at Gener and Guacolda of $147 million, or $0.22 per share.
14. Amount primarily relates to income tax benefits associated with the impairments at Kilroot and Ballylumford of $17 million, or $0.03 per share, and income tax benefits associated with losses on early retirement of debt at DPL, Mong Duong and Colon of $24 million, or $0.04 per share

Reconciliation of FY Adjusted PTC[1] and Adjusted EPS[1]

$ in Millions, Except Per Share Amounts	FY 2019		FY 2018	
	Net of NCI[2]	Per Share (Diluted) Net of NCI[2]	Net of NCI[2]	Per Share (Diluted) Net of NCI[2]
Income from Continuing Operations, Net of Tax, Attributable to AES and Diluted EPS	$302	$0.45	$985	$1.48
Add: Income Tax Expense from Continuing Operations Attributable to AES	$250		$563	
Pre-Tax Contribution	$552		$1,548	
Adjustments				
Unrealized Derivative and Equity Securities Losses	$113	$0.17[3]	$33	$0.05
Unrealized Foreign Currency Losses	$36	$0.05[4]	$51	$0.09[5]
Disposition/Acquisition Losses (Gains)	$12	$0.02[6]	($934)	($1.41)[7]
Impairment Expense	$406	$0.61[8]	$307	$0.46[9]
Loss on Extinguishment of Debt	$121	$0.18[10]	$180	$0.27[11]
U.S. Tax Law Reform Impact	-	($0.01)	-	$0.18[12]
Less: Net Income Tax Expense (Benefit)	-	($0.11)[13]	-	$0.12[14]
Adjusted PTC[1] & Adjusted EPS[1]	$1,240	$1.36	$1,185	$1.24

1. A Non-GAAP financial measure. See “definitions”.
2. NCI is defined as Noncontrolling Interests.
3. Amount primarily relates to unrealized derivative losses in Argentina of $89 million, or $0.13 per share, mainly associated with foreign currency derivatives on government receivables.
4. Amount primarily relates to unrealized FX losses in Argentina of $25 million, or $0.04 per share, mainly associated with the devaluation of long-term receivables denominated in Argentine pesos, and unrealized FX losses at the Parent Company of $12 million, or $0.02 per share, mainly associated with intercompany receivables denominated in Euro.
5. Amount primarily relates to unrealized FX losses of $22 million, or $0.03 per share, associated with the devaluation of long-term receivables denominated in Argentine pesos, and unrealized FX losses of $14 million, or $0.02 per share, on intercompany receivables denominated in Euro and British pounds at the Parent Company.
6. Amount primarily relates to losses recognized at commencement of sales-type leases at Distributed Energy of $36 million, or $0.05 per share, and loss on sale of Kilroot and Ballylumford of $31 million, or $0.05 per share; partially offset by gain on sale of a portion of our interest in sPower’s operating assets of $28 million, or $0.04 per share, gain on disposal of Stuart and Killen at DPL of $20 million, or $0.03 per share, and gain on sale of ownership interest in Simple Energy as part of the Uplight merger of $12 million, or $0.02 per share.
7. Amount primarily relates to gain on sale of Masinloc of $772 million, or $1.16 per share, gain on sale of CTNG of $86 million, or $0.13 per share, gain on sale of Electrica Santiago of $36 million, or $0.05 per share, gain on remeasurement of contingent consideration at AES Oahu of $32 million, or $0.05 per share, gain on sale related to the Company's contribution of AES Advancion energy storage to the Fluence joint venture of $23 million, or $0.03 per share, and realized derivative gains associated with the sale of Eletropaulo of $21 million, or $0.03 per share; partially offset by loss on disposal of the Beckjord facility and additional shutdown costs related to Stuart and Killen at DPL of $21 million, or $0.03 per share.
8. Amount primarily relates to asset impairments at Kilroot and Ballylumford of $115 million, or $0.17 per share and Hawaii of $60 million, or $0.09 per share; impairments at our Guacolda and sPower equity affiliates, impacting equity earnings by $105 million, or $0.16 per share, and $21 million, or $0.03 per share, respectively; and other-than-temporary impairment of OPGC of $92 million, or $0.14 per share.
9. Amount primarily relates to asset impairments at Shady Point of $157 million, or $0.24 per share, and Nejapa of $37 million, or $0.06 per share, and other-than-temporary impairment of Guacolda of $96 million, or $0.14 per share.
10. Amount primarily relates to losses on early retirement of debt at DPL of $45 million, or $0.07 per share, AES Gener of $35 million, or $0.05 per share, Mong Duong of $17 million, or $0.03 per share, and Colon of $14 million, or $0.02 per share.
11. Amount primarily relates to loss on early retirement of debt at the Parent Company of $171 million, or $0.26 per share.
12. Amount relates to a SAB 118 charge to finalize the provisional estimate of one-time transition tax on foreign earnings of $194 million, or $0.29 per share, partially offset by a SAB 118 income tax benefit to finalize the provisional estimate of remeasurement of deferred tax assets and liabilities to the lower corporate tax rate of $77 million, or $0.11 per share.
13. Amount primarily relates to income tax benefits associated with the impairments at OPGC of $23 million, or $0.03 per share, Guacolda of $13 million, or $0.02 per share, Hawaii of $13 million, or $0.02 per share, and Kilroot and Ballylumford of $11 million, or $0.02 per share, and income tax benefits associated with losses on early retirement of debt of $24 million, or $0.04 per share; partially offset by an adjustment to income tax expense related to 2018 gains on sales of business interests, primarily Masinloc, of $25 million, or $0.04 per share.
14. Amount primarily relates to the income tax expense under the GILTI provision associated with the gains on sales of business interests, primarily Masinloc, of $97 million, or $0.15 per share, and income tax expense associated with gains on sale of CTNG of $36 million, or $0.05 per share and Electrica Santiago of $13 million, or $0.02 per share; partially offset by income tax benefits associated with the loss on early retirement of debt at the Parent Company of $36 million, or $0.05 per share, and income tax benefits associated with the impairment at Shady Point of $33 million, or $0.05 per share.

Reconciliation of Parent Free Cash Flow[1]

$ in Millions	2019	2018
Net Cash Provided by Operating Activities at the Parent Company[2]	$583	$409
Subsidiary Distributions to QHCs Excluded from Schedule 1[3]	$183	$117
Subsidiary Distributions Classified in Investing Activities[4]	$60	$267
Parent-Funded SBU Overhead and Other Expenses Classified in Investing Activities[5]	($97)	($84)
Other	($3)	($20)
Parent Free Cash Flow[1]	$726	$689

1. A non-GAAP financial measure. See “definitions”.
2. Refer to Part IV—Item 15—Schedule I—Condensed Financial Information of Registrant of the Company's 2019 10-K filed with the SEC on February 27, 2020.
3. Subsidiary distributions received by Qualified Holding Companies ("QHCs") excluded from Schedule 1. See “definitions”.
4. Subsidiary distributions that originated from the results of operations of an underlying investee but were classified as investing activities when received by the relevant holding company included in Schedule 1. See “definitions”.
5. Net cash payments for parent-funded SBU overhead, business development, taxes, transaction costs, and capitalized interest that are classified as investing activities or excluded from Schedule 1.

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 Key Performance Indicators (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 have 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 and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and the tax impact from the repatriation of sales proceeds, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; (f) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations and office consolidation; (g) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence; and (h) tax benefit or expense related to the enactment effects of 2017 U.S. tax law reform and related regulations and any subsequent period adjustments related to enactment effects.

Adjusted Pre-Tax Contribution, a non-GAAP financial measure, is defined as pre-tax income from continuing operations attributable to The AES Corporation excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses related to derivative transactions and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; (f) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations and office consolidation; and (g) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence.

NCI is defined as noncontrolling interests.

Parent Company Liquidity (a non-GAAP financial measure) is defined as as cash available to the Parent Company, including cash at qualified holding companies ("QHCs"), plus available borrowings under our existing credit facility. The cash held at qualified holding companies represents cash sent to subsidiaries of the Company domiciled outside of the U.S. Such subsidiaries have no contractual restrictions on their ability to send cash to the Parent Company.

Parent Free Cash Flow (a non-GAAP financial measure) should not be construed as an alternative to Consolidated Net Cash Provided by Operating Activities, which is determined in accordance with US GAAP. Parent Free Cash Flow is the primary, recurring source of cash that is available for use by the Parent Company. 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. Management uses Parent Free Cash Flow to determine the cash available to pay dividends, repay recourse debt, make equity investments, fund share buybacks, pay Parent Company hedging costs and make foreign exchange settlements.

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 Consolidated 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 Consolidated 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.